DRAFT MINUTES

PLACE: Alliance Behavioral Healthcare, 4600 Emperor Blvd. Room 208, Durham, NC 27703.

MEMBERS PRESENT: Ann Akland, Cynthia Binay, Christopher Bostock, Dr. George Corvin, Kenneth Edge, James Edgerton, Lodies Gloston, Phillip Golden, Dr. John Griffin, Dr. Nancy Henley, Ellen Holliman, Rev. Michael Page, George Quick, Vicki Shore, Caroline Sullivan, Scott Taylor, Amelia Thorpe and Lascel Webley, Jr., Chairman.

MEMBERS ABSENT: William Stanford

GUESTS PRESENT: Denise Foreman from Wake County, Eddie Burke, with Cherry Bekaert, CPA, Melissa McLamb with Cherry Bekaert, CPA, Mary Short, Mildred Miller

STAFF PRESENT: May Alexander, Hank Debnam, Doug Fuller, Kelly Goodfellow, Veronica Ingram, Carlyle Johnson, Susan Knox, Janis Nutt, Sara Pacholke, Monica Portugal, Rob Robinson, Sean Schreiber, Dr. Khalil Tanas, Sara Wilson, and Doug Wright.

1. CALL TO ORDER:
   Chairman Lascel Webley, Jr. called the meeting to order at 4:02 p.m.

2. ANNOUNCEMENTS
   A. Chairman Webley introduced Commissioner Caroline Sullivan as a new Board member and stated that Commissioner Sullivan’s Oath of Office will be deferred until the next Board meeting.
   B. Chairman Webley mentioned Board member Adele Foschia’s death and plans to offer condolences to Ms. Foschia’s family.
   C. Ellen Holliman, Chief Executive Officer, recognized Commissioner Kenneth Edge’s election to the position of Vice-Chair of the Cumberland Board of County Commissioners and Rev. Michael Page’s election to the position of Chair of the Durham Board of County Commissioners.
   D. Ms. Holliman presented a letter sent to North Carolina Department of Health and Human Services Secretary, Aldona Wos, expressing Alliance’s support of the proposed MCO consolidation plan and recommendation to move forward with the consolidation. Ms. Holliman presented an overview of the advisory panel meeting and stated that a timeframe for the MCO consolidation has not been specified.
   E. Rob Robinson, Chief Operating Officer, reminded the Board of the upcoming URAC Accreditation visit on December 10 and 11, 2013. Mr. Robinson commended staff for their
preparation for the URAC visit.

F. Mr. Robinson reminded the Board of the upcoming Mercer review scheduled for February 13 and 14, 2014.

G. Chairman Webley informed the Board that there will be a January Board meeting due to the time sensitivity of the recent Request for Proposal (RFP) process. The purpose of the January meeting will be to approve staff recommendations for providers selected through the RFP process. The meeting will be held on January 9, 2014 at 4:00 p.m.

H. Chairman Webley reminded the Board that the NC Council Fall Conference will be held in Pinehurst December 11, 12 and 13, 2013.

I. Chairman Webley announced that Dr. Nancy Henley has accepted the position of Chief Medical Officer with the Division of Medical Assistance and will be resigning from the Board.

3. **AGENDA ADJUSTMENTS**

   None

4. **PUBLIC COMMENT**

   Mary Short, representing herself, from Alexander County, stated that she attended last month’s Board meeting and returned because the Relative as Provider policy is a current agenda item. Ms. Short expressed concern regarding the omission of a phrase in the PowerPoint presentation. Additionally, Ms. Short requested that the two minute limit for public comments be extended.

   Mildred Miller, representing herself, from Wake County, expressed concern regarding the statement that families isolated consumers. Ms. Miller offered information to contradict this statement and requested a response from Alliance. Also, Ms. Miller requested more involvement in the community by Alliance to substantiate their claim.

5. **FINANCE COMMITTEE REPORT**

   The Finance Committee’s function is to review financial statements and recommend policies, practices on fiscal matters to the Board. The Finance Committee meets monthly at 3:00 p.m. prior to the regular Board meeting. Draft minutes and financial information from the November 7, 2013, meeting are attached. Finance Chairman, George Quick, requested an increase in budget due to the increase in covered lives.

**BOARD ACTION**

The Board accepted the Finance Committee Minutes as presented.

A Motion was made by Dr. George Corvin to approve the amended budget to cover the additional covered lives; seconded by Phillip Golden. Motion passed.
6. **FY 13 AUDIT REPORT**
An annual audit is a requirement of the Local Government Budget and Fiscal Control Act GS 159-34. The annual audit is also a requirement of the DHHS-DMA contract with Alliance for the Medicaid Waiver. The Alliance financial report and the report of the independent auditor were presented by the firm of Cherry Bekaert, CPA.

Eddie Burke, Engagement Partner with the firm Cherry Bekaert, CPA presented the results of this year’s audit. Mr. Burke presented detailed findings from the audit and did not propose any adjustments. Mr. Burke summarized that overall the audit was good, especially for a company being in business one year. Ms. Holliman congratulated Alliance’s Chief Finance Officer and Finance Director. Chairman Webley expressed gratitude to Alliance staff.

**BOARD ACTION**
The Board accepted the audit as presented.

7. **COMMITTEE REPORTS**
   A. Consumer and Family Advisory Committee Report
   B. Executive Committee Report
   C. Policy Committee

Chairman Webley stated that the Board received the Committee Reports in the Board Packets.

**BOARD ACTION**
A motion was made by Phillip Golden to accept the reports as presented; seconded by Christopher Bostock. Motion passed.

8. **CONSENT AGENDA**
   A. Draft Board minutes from the November 7, 2013, Board meeting
   B. Annual Review of Board Policies

Chairman Webley stated that the Board received the minutes and Board Policies in the Board Packets.

**BOARD ACTION**
A Motion was made by Commissioner Michael Page to approve the Consent Agenda and Board Policies as presented; seconded by Vicki Shore. Motion passed.

9. **RFP UPDATE**
Carlyle Johnson, Clinical Program Development and Design Administrator, presented an update on the Request for Proposals (RFPs) for Intensive In-Home (IIH), Community Support Team (CST), Substance Abuse Intensive Outpatient (SAIOP) and Supported Employment for Individuals with Serious Mental Illness (SEP).

Dr. Johnson provided the Board with an update that included requirements being considered during the RFP desk review. Dr. Johnson mentioned that although not required, Alliance offered providers, who did not meet the requirements, an opportunity to meet informally with Alliance’s Chief Executive Officer. Dr. Johnson stated that RFP
Interviews will start next week and a second review will be conducted for providers who do not meet requirements; the purpose of the second review is to confirm Alliance’s original decision. Dr. Johnson clarified representation of Board members in RFP interviews and stated that he would send the RFP interview schedule to Board members.

**BOARD ACTION**
The Board received the update. No further action was required.

10. **BOARD EDUCATION**

A. Relative as Provider
The presentation on Relative as Provider is a follow-up to the public comments made by two individuals at the November Board meeting. Sara Wilson, Network Development Specialist, presented a PowerPoint presentation on Alliance’s Relative as Provider process.

Ms. Wilson stated that the Relative as Provider Committee’s decisions are a separate process from utilization management and do not have an adverse effect on authorizations. Ms. Wilson mentioned details of the Relative as Provider process including the number of authorizations approved, denied and voluntarily withdrawn. Specifically, Ms. Wilson noted details of employment-based criteria, age requirements and included DMA’s recommendation regarding the number of hours provided to Waiver participants; expressing Alliance’s considerations for authorizations in excess of forty (40) hours per week which differs from other LME/MCOs that systematically deny authorizations in excess of forty hours per week.

B. Grievance Process
Compliant review and resolution are part of the LME/MCO state required function. May Alexander, Quality Management Data Manager, presented an orientation of the grievance/concern process.

Ms. Alexander stated that all staff are trained in submitting an external grievance or internal concern. Some grievances/concerns are referred to Corporate Compliance Committee, Provider Monitoring or Special Investigations. Ms. Alexander presented details regarding informal resolution including internal research, details of timeframe requirements for grievances and concerns, and emphasized that receipt of a grievance or concern is the date of initial receipt not the date when the grievance/concern is entered in Alpha MCS.

**BOARD ACTION**
The Board received the presentations. No further action was required.
11. Policy/Corporate Compliance Report
The Alliance Behavioral Healthcare Area Board Policy “Development of Policies and Procedures” requires the Board to review all policies annually. Alliance is required to have a compliance program per Federal Regulations and contractual agreement with the Division of Medical Assistance. The US Sentencing Commission has released guidelines for organizations which state that an organization must have an effective compliance program with reasonable oversight by the governing board; understanding of the scope and operations of the compliance program. The Area Board approved Corporate Compliance Plan states that a report of compliance efforts will be submitted and presented annually to the Alliance Behavioral Healthcare Area Board.

Chairman Webley stated that the policies and Compliance Report were included in the Board packet. Chairman Webley mentioned that as discussed a year ago, cosmetic policy changes were presented as part of the Consent Agenda and significant policy changes would be presented to the Board separately.

Monica Portugal, Corporate Compliance Officer, presented detailed information on the draft revised Board Conflict of Interest and Public Comment at Board Meetings policies, as well as the Alliance FY13 Compliance Report. Ms. Portugal presented an overview of the Compliance Program including Policies and Procedures, staff education, how to address violations, if any, prevention and setting appropriate foundations.

Ellen Holliman, Chief Executive Officer, stated that the By Laws policy was pulled from the Board Packet for additional revisions. Additionally, Ms. Holliman stated that the County Commissioners Advisory Committee will be a standing committee as part of the By Laws and would meet quarterly.

Commissioner Michael Page stated, regarding the Public Comments Policy, that the Board wants to inform the public that their input is welcome. Commissioner Page offered additional input to facilitate public comments.

BOARD ACTION
A Motion was made by Commissioner Kenneth Edge to accept the Compliance Report and approve the Board Conflict of Interest and Public Comment at Board Meetings Policies as presented; seconded by George Quick. Motion passed.

12. CHAIRMAN'S REPORT
As discussed in the previous Executive Committee meeting and in lieu of Board member Adele Foschia’s passing, Chairman Webley proposed withholding one month of each Board member’s stipend to support a special fund. The monies in this fund would be used to purchase flowers, etc. for similar future situations.

BOARD ACTION
A Motion was made by Dr. George Corvin to allocate one month of each Board member’s stipend to a special fund; seconded by Commissioner Kenneth Edge. Motion passed.

13. CLOSED SESSION
The Area Board had a closed session in accordance with NC General Statue 143-318.11(a) (3) to discuss the performance of a public official.

**BOARD ACTION**
A Motion was made by Lodies Gloston to enter a closed session; seconded by Dr. John Griffin. Motion passed.

15. **ADJOURNMENT**
With all business being completed the meeting adjourned at 6:22 p.m.

Next Meeting
Thursday, January 9, 2014
Alliance Behavioral Healthcare
4600 Emperor Blvd., Room 208
Durham, NC 27703

Respectfully submitted:

Ellen S. Holliman, Chief Executive Officer

Date Approved
ITEM: Finance Committee Minutes from November 7, 2013 meeting

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:

The Finance Committee’s function is to review financial statements and recommend policies/practices on fiscal matters to the Area Board. The Finance Committee meets monthly at 3:00 PM prior to the regular Area Board Meeting. The quarterly financial statements and ratios for the period ending September 30, 2013 and the draft minutes of the November Finance Committee are attached.

REQUEST FOR AREA BOARD ACTION:
Accept the report.

CEO RECOMMENDATION:
Accept the report

RESOURCE PERSON(S):
Ellen Holliman, Kelly Goodfellow, Sara Pacholke
Members Present: Phillip Golden, BS, Lascel Webley, Jr, MBA, MHA, George Quick, MBA, Vicki Shore

Members Absent: Ann Akland, Jim Edgerton, BS

Guest Present: Chris Bostock, William Stanford (Board Member, guest of Finance Committee)

Staff Present: Kelly Goodfellow, MBA, Sara Pacholke, BS, CPA, Rob Robinson, LCAS, Ellen Holliman, BS

Staff Absent: N/A

Opening: Meeting opened by George Quick at 2:00 at Alliance Behavioral Healthcare’s corporate office

Approval of Minutes: Lascel Webley made a motion to approve the minutes from the October 3, 2013 meeting with a second from Vicki Shore.

Agenda Items

Quarterly Financial Statements and Ratios

Sara Pacholke presented the September 2013 balance sheet, income statement, cash flows statement and ratios. Revenues and expenses were in line with expectations for the third month of the year. Alliance currently meets the financial ratios required by Senate Bill 208 and the ratios monitored by DMA.

Audit Update

Sara provided an update on the annual audit. The Local Government Commission accepted the financial statements with no adjustments. The auditors did not issue a management letter so there were no identified material weaknesses or significant deficiencies. They auditors did issue an “Other Recommendation” letter that included suggestions for IT entity level controls and access and security controls.

Budget Update

Kelly Goodfellow went over the upcoming budget amendment. Changes will be made due to Medicaid PMPM rate changes on 1/1/14 and the number of eligible lives. The rate is decreasing, but the lives are increasing.

Kelly discussed the Durham Service reduction plan. This includes utilizing Medicaid B3 services, reviewing eligibility of consumers and potentially using restricted State Net Assets to cover out of county consumer costs. The Internal Budget and Finance Committee will review 6 months of expenses in
January and evaluate the effectiveness of the first two strategies. Kelly will bring the re-assessment back to the Finance Committee at the February meeting.

Meeting adjourned at 2:55 pm.

Respectfully submitted,

Sara Pacholke
Finance Director
Alliance Behavioral Healthcare
Benchmark Ratios
As of September 30, 2013

**CURRENT RATIO**

Bench Mark - 1.0
Alliance

**PERCENT PAID**

Bench Mark - 90%
Alliance

**DEFENSIVE INTERVAL**

Bench Mark - 30 Days
Alliance

**MEDICAL LOSS**

Bench Mark - > 80%
Alliance
**CASH FLOWS FROM OPERATING ACTIVITIES**

Revenues over Expenditures Before Other Financing Sources $ 4,362,530

Adjustments to reconcile revenues over expenditures to net cash provided by (used in operating activities)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortization expense</td>
<td>$ 38,382</td>
</tr>
<tr>
<td>(Increase) decrease in due from other governments</td>
<td>$(5,722,429)</td>
</tr>
<tr>
<td>(Increase) decrease in sales tax receivable</td>
<td>$(6,191)</td>
</tr>
<tr>
<td>(Increase) decrease in prepaid expenses</td>
<td>$ 2,767,153</td>
</tr>
<tr>
<td>(Increase) decrease in restricted cash</td>
<td>$(1,720,929)</td>
</tr>
<tr>
<td>(Increase) decrease in security deposits</td>
<td>$ 0</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable</td>
<td>$(2,821,923)</td>
</tr>
<tr>
<td>Increase (decrease) in accrued liabilities</td>
<td>$ 7,172,681</td>
</tr>
<tr>
<td>Increase (decrease) in accrued IBNR</td>
<td>$ 4,149,702</td>
</tr>
</tbody>
</table>

Total adjustments $ 3,856,445

Net cash provided by (used in) operating activities $ 8,218,976

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment $ (0)

Net cash provided by (used in) investing activities $ (0)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Debt payment made $ (400,000)

Net cash provided by (used in) financing activities $ (400,000)

Net increase (decrease) in cash and cash equivalents $ 7,818,976

Cash and cash equivalents at beginning of period $ 30,444,860

Cash and cash equivalents at end of period $ 38,263,836
## REVENUES

<table>
<thead>
<tr>
<th>Service</th>
<th>Budget</th>
<th>Current Period</th>
<th>Year to Date</th>
<th>Balance</th>
<th>% Received</th>
<th>Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>County</strong></td>
<td>$35,860,112.00</td>
<td>($50,223.13)</td>
<td>$8,892,807.37</td>
<td>$26,967,304.63</td>
<td>24.80%</td>
<td></td>
</tr>
<tr>
<td><strong>State</strong></td>
<td>37,673,396.00</td>
<td>3,004,143.81</td>
<td>8,794,525.81</td>
<td>28,878,870.19</td>
<td>23.34%</td>
<td></td>
</tr>
<tr>
<td><strong>Federal</strong></td>
<td>7,640,334.00</td>
<td>450,894.63</td>
<td>400,482.86</td>
<td>7,239,851.14</td>
<td>5.24%</td>
<td></td>
</tr>
<tr>
<td>Medicaid and CAP Pass Through</td>
<td>500,000.00</td>
<td>500,000.00</td>
<td>500,000.00</td>
<td>500,000.00</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>Medicaid Waiver</td>
<td>307,626,720.00</td>
<td>28,981,614.06</td>
<td>86,033,069.88</td>
<td>221,593,650.12</td>
<td>27.97%</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>508,014.89</td>
<td>508,104.39</td>
<td>(508,104.39)</td>
<td>0.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Service Revenue</strong></td>
<td>389,300,562.00</td>
<td>32,894,444.26</td>
<td>104,628,990.31</td>
<td>284,671,571.69</td>
<td>26.88%</td>
<td></td>
</tr>
<tr>
<td><strong>Administrative Revenue</strong></td>
<td>1,017,828.00</td>
<td>50,223.13</td>
<td>304,680.13</td>
<td>713,147.87</td>
<td>29.93%</td>
<td></td>
</tr>
<tr>
<td><strong>State</strong></td>
<td>4,538,540.00</td>
<td>449,630.60</td>
<td>1,258,796.60</td>
<td>3,279,743.40</td>
<td>27.74%</td>
<td></td>
</tr>
<tr>
<td>Medicaid and CAP UR</td>
<td>54,294.34</td>
<td></td>
<td></td>
<td></td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>Medicaid Waiver</td>
<td>31,356,480.00</td>
<td>2,954,048.82</td>
<td>7,959,294.39</td>
<td>23,397,185.61</td>
<td>25.38%</td>
<td></td>
</tr>
<tr>
<td>In Kind Revenue</td>
<td>1,130,287.00</td>
<td>143,430.00</td>
<td>143,430.00</td>
<td>986,857.00</td>
<td>12.69%</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>25,000.00</td>
<td>180.00</td>
<td>898.67</td>
<td>24,101.33</td>
<td>3.59%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Administrative Revenue</strong></td>
<td>38,068,135.00</td>
<td>3,651,806.89</td>
<td>9,667,099.79</td>
<td>28,401,035.21</td>
<td>25.39%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>427,368,697.00</td>
<td>36,546,251.15</td>
<td>114,296,090.10</td>
<td>313,072,606.90</td>
<td>26.74%</td>
<td></td>
</tr>
</tbody>
</table>

## EXPENDITURES

<table>
<thead>
<tr>
<th>Service</th>
<th>Budget</th>
<th>Current Period</th>
<th>Year to Date</th>
<th>Balance</th>
<th>% Received</th>
<th>Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>County</strong></td>
<td>36,047,755.00</td>
<td>2,125,605.11</td>
<td>7,162,999.57</td>
<td>28,884,755.43</td>
<td>19.87%</td>
<td></td>
</tr>
<tr>
<td><strong>State</strong></td>
<td>37,673,396.00</td>
<td>3,686,809.77</td>
<td>10,402,708.23</td>
<td>27,270,687.77</td>
<td>27.61%</td>
<td></td>
</tr>
<tr>
<td><strong>Federal</strong></td>
<td>6,519,906.00</td>
<td>434,595.32</td>
<td>975,485.65</td>
<td>5,544,420.35</td>
<td>14.96%</td>
<td></td>
</tr>
<tr>
<td>Medicaid and CAP Pass Through</td>
<td>500,000.00</td>
<td>500,000.00</td>
<td></td>
<td>500,000.00</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>Medicaid Waiver</td>
<td>307,626,720.00</td>
<td>26,589,015.97</td>
<td>84,037,599.35</td>
<td>223,589,120.65</td>
<td>27.32%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Service Expenditures</strong></td>
<td>388,367,777.00</td>
<td>32,836,026.17</td>
<td>102,578,792.80</td>
<td>285,788,984.20</td>
<td>26.41%</td>
<td></td>
</tr>
<tr>
<td><strong>Administrative</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational</td>
<td>5,909,076.05</td>
<td>345,545.65</td>
<td>946,692.30</td>
<td>4,962,383.75</td>
<td>16.02%</td>
<td></td>
</tr>
<tr>
<td>Salaries, Benefits, and Fringe</td>
<td>26,565,186.87</td>
<td>1,930,601.02</td>
<td>5,784,569.80</td>
<td>20,780,617.07</td>
<td>21.78%</td>
<td></td>
</tr>
<tr>
<td>Professional Services</td>
<td>5,396,370.08</td>
<td>318,197.88</td>
<td>480,075.25</td>
<td>4,916,294.83</td>
<td>8.90%</td>
<td></td>
</tr>
<tr>
<td>In Kind Expenses</td>
<td>1,130,287.00</td>
<td>143,430.00</td>
<td>143,430.00</td>
<td>986,857.00</td>
<td>12.69%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Administrative Expenditures</strong></td>
<td>39,000,920.00</td>
<td>2,737,774.55</td>
<td>7,354,767.35</td>
<td>31,646,152.65</td>
<td>18.86%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>427,368,697.00</td>
<td>35,573,800.72</td>
<td>109,933,560.15</td>
<td>317,435,136.85</td>
<td>25.72%</td>
<td></td>
</tr>
</tbody>
</table>

## REVENUES OVER EXPENDITURES

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Current Period</th>
<th>Year to Date</th>
<th>Balance</th>
<th>% Received</th>
<th>Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alliance Behavioral Healthcare</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Budget to Actual Comparison - Revenue &amp; Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>For the Three Months Ending September 30, 2013</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$38,263,835.61</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Restricted Cash</td>
<td>9,454,240.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from Other Governments</td>
<td>11,766,309.61</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable, Net of Allowance for Uncollectible Accounts</td>
<td>16,664.96</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Tax Refund Receivable</td>
<td>90,251.94</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>426,963.14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>60,018,265.26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>615,694.39</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>42,932.43</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>21,963.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>137,560.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Accumulated Depreciation and Amortization</td>
<td>(168,819.68)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Property and Equipment - Net</strong></td>
<td>649,330.14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted Cash</td>
<td>4,614,178.89</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security Deposits</td>
<td>93,934.99</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td>4,708,113.88</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$65,375,709.28</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| LIABILITIES | | |
| **Current Liabilities** | | |
| Notes Payable - Current Portion | $1,600,000.00 | |
| Accounts Payable and Other Current Liabilities | 10,251,567.51 | |
| Accrued Liabilities | 11,454,304.51 | |
| Accrued IBNR | 21,113,474.00 | |
| **Total Current Liabilities** | 44,419,346.02 | |
| **Long-Term Liabilities** | | |
| Notes Payable | 5,600,000.00 | |
| Accrued Vacation | 386,550.00 | |
| **Total Long-Term Liabilities** | 5,986,550.00 | |
| **Total Liabilities** | 50,405,896.02 | |

| NET ASSETS | | |
| Invested in capital assets, net of related debt | 649,330.14 | |
| **Restricted for:** | | |
| Risk Reserve | 4,614,178.89 | |
| Services Restricted at BOY | 9,454,240.35 | |
| Unrestricted | 252,063.88 | |
| **Total Net Assets** | 14,969,813.26 | |
| **Total Liabilities and Net Assets** | $65,375,709.28 | |
ITEM: June 30, 2013 Audited Financial Statements and Related Documents

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
Alliance Behavioral Healthcare Report
- Report of Independent Auditor
- Management’s Discussion and Analysis
- Basic Financial Statements
- Supplemental Schedules

An annual audit is a requirement of the Local Government Budget and Fiscal Control Act GS 159-34. An annual audit is also a requirement of the DHHS-DMA contract with Alliance for the Medicaid Waiver.

Alliance Behavioral Healthcare Compliance Report
- Report of Independent Auditor
- Schedule of Findings and Questioned Costs
- Schedule of Corrective Action Plan
- Schedule of Expenditures of Federal and State Awards
- Notes to the Schedule of Expenditures of Federal and State Awards

A compliance audit is a requirement of the Local Government Budget and Fiscal Control act GS 159-34.

SAS 114 Letter
This is a letter to the Area Board that communicates specific information about the audit. This is a requirement under generally accepted auditing standards, Government Auditing Standards, OMB Circular A-133 and the State Single Audit Implementation Act.

Recommendation Letter
This is a letter to management noting material weaknesses and significant deficiencies, if any, as well as general recommendations. This is a requirement under generally accepted auditing standards.

REQUEST FOR AREA BOARD ACTION:
Accept the report.

CEO RECOMMENDATION:
Accept the report.

RESOURCE PERSON(S):
Ellen Holliman, Kelly Goodfellow, Sara Pacholke
ALLIANCE BEHAVIORAL HEALTHCARE

FINANCIAL REPORT

As of and for the Year Ended June 30, 2013

And Report of Independent Auditor
REPORT OF INDEPENDENT AUDITOR ............................................................... 1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS ........................................... 3-6

BASIC FINANCIAL STATEMENTS
Statement of Net Position .................................................................................. 7
Statement of Revenues, Expenses, and Changes in Net Position .......................... 8
Statement of Cash Flows ................................................................................... 9
Notes to the Financial Statements .................................................................... 10-18

SUPPLEMENTAL SCHEDULES
Balance Sheet (Non-GAAP) ............................................................................. 19
Reconciliation of the Balance Sheet to the Statement of Net Position .................. 20
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP) ....................................................................... 21-22
Report of Independent Auditor

To the Area Board
Alliance Behavioral Healthcare
Durham, North Carolina

Report on the Financial Statements
We have audited the accompanying financial statements of Alliance Behavioral Healthcare (the “Organization”), which comprise the statement of net position as June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.
Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization’s basic financial statements. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards
In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2013, on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization’s internal control over financial reporting and compliance.

Raleigh, North Carolina
October 28, 2013
As management of Alliance Behavioral Healthcare, we offer readers of Alliance Behavioral Healthcare’s financial statements this narrative overview and analysis of the financial activities of Alliance Behavioral Healthcare for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Organization's financial statements which follows this narrative.

Financial Highlights

- The assets of Alliance Behavioral Healthcare exceeded its liabilities at the close of the fiscal year by $10,607,284 (net position).
- As of the close of the current fiscal year, Alliance Behavioral Healthcare’s restricted net position included $2,893,250 restricted for Medicaid Waiver, $3,363,181 restricted for Medicaid services, $4,400,641 restricted for State services, $490,418 restricted for Wake County services, and $1,200,000 restricted for Cumberland County services.

Financial Statements

The Organization’s financial statements report information of the Organization using accounting methods similar to those used by public-sector managed health care organizations. The significant difference is in the level of risk reserves that are established due to the at-risk contractual relationship under which the Organization operates.

These financial statements offer short-term and long-term financial information about its activities.

The Organization’s financial statements consist of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows and Notes to the Financial Statements. In addition to the financial statements, this report contains other supplementary information that will enhance the reader’s understanding of the financial condition of the Organization. Budgetary information required by the General Statutes can also be found in this part of the statements.

The Statement of Net Position reports the Organization’s net position. Net position is the difference between the Organization’s total assets and total liabilities. Measuring net position is one way to gauge the Organization’s financial condition.

The Statement of Revenues, Expenses and Changes in Net Position reports the Organization’s revenues, expenses and the overall change in net position.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Organization

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Organization and the changes in net position. The Organization’s net position, the difference between assets and liabilities, is a way to measure financial health or financial position. Over time, increases or decreases in the Organization’s net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed governmental legislation.
Statement of Net Position

A summary of the Organization’s Statement of Net Position as June 30, 2013 is presented in Figure 1.

Figure 1

Condensed Statement of Net Position

June 30, 2013

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>$ 49,237,825</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Assets</td>
<td>2,987,185</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>687,712</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>52,912,722</strong></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>36,318,888</td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td>5,986,550</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>42,305,438</strong></td>
</tr>
</tbody>
</table>

Net Position

<table>
<thead>
<tr>
<th>Invested in Capital Assets</th>
<th>687,712</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted</td>
<td>12,347,490</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(2,427,918)</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td><strong>$ 10,607,284</strong></td>
</tr>
</tbody>
</table>

The net position of the Organization increased to $10,607,284 during 2013. The Organization became a governmental entity on July 1, 2012 and has operated under the Medicaid Waiver since February 1, 2013. The capitation rate paid is established by an actuarial study of the historical service cost for the Medicaid population included in the Waiver agreement. To the extent that there are increases in net position, a portion of those increases are required by contractual agreement to be restricted to provide services in future periods.
Statement of Revenues, Expenses, and Changes in Net Position

A summary of the Organization’s Statement of Revenues, Expenses, and Changes in Net Position as June 30, 2013 is presented in Figure 2.

Figure 2

Condensed Statement Revenues, Expenses, and Changes in Net Position

June 30, 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operating Revenues</td>
<td>$220,851,919</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>210,184,899</td>
</tr>
<tr>
<td>Total Operating Income</td>
<td>10,667,020</td>
</tr>
<tr>
<td>Total Nonoperating Expenses</td>
<td>81,699</td>
</tr>
<tr>
<td>Total Income before contributions</td>
<td>10,585,321</td>
</tr>
<tr>
<td>Total Capital Contributions</td>
<td>21,963</td>
</tr>
<tr>
<td>Increase in net position</td>
<td>10,607,284</td>
</tr>
<tr>
<td>Total net position, beginning</td>
<td>-</td>
</tr>
<tr>
<td>Total net position, ending</td>
<td>$10,607,284</td>
</tr>
</tbody>
</table>

The Organization has operated a Medicaid Managed Care waiver under contract with the Department of Health and Human Services since February 1, 2013. The Organization receives Medicaid funding on a per member per month basis. In addition to the waiver, the Organization operates under a single stream funding arrangement with the State of North Carolina, Department of Health and Human Services Division of Mental Health, Developmental Disabilities, and Substance Abuse. The two funding sources comprise approximately 76% of the revenues of the Organization.

Budgetary Analysis

Over the course of the year, the Organization revised the budget several times primarily due to decreased Medicaid revenue and a decrease in expected grant funds.
Capital Assets and Debt Administration

Capital Assets - At June 30, 2013 the Organization had invested $687,712 in capital assets, net of accumulated depreciation, as shown in Figure 3.

Figure 3

Capital Assets, Net of Accumulated Depreciation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and Fixtures</td>
<td>$537,076</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>32,824</td>
</tr>
<tr>
<td>Vehicles</td>
<td>14,642</td>
</tr>
<tr>
<td>Software</td>
<td>103,170</td>
</tr>
<tr>
<td><strong>Total Capital Assets, Net of Accumulated Depreciation</strong></td>
<td><strong>$687,712</strong></td>
</tr>
</tbody>
</table>

At June 30, 2013, the Organization had no outstanding debt associated with these capital assets.

Long-Term Debt - At June 30, 2013 the Organization had $7,600,000 in long-term debt, $2,000,000 of which is current.

Economic Factors and Next Year’s Budget

Currently, the Organization is negotiating revised per member per month rate with the Department of Health and Human Services which could affect next year’s budgeted revenues. Subsequent to year end the Organization merged with Cumberland County’s Mental Health Department.
### ASSETS

**Current Assets:**
- Cash and cash equivalents: $30,444,861
- Restricted cash and cash equivalents: 9,454,240
- Due from other governments: 4,274,303
- Due from contractors: 1,769,578
- Miscellaneous receivables: 100,727
- Prepaids: 3,194,116

  Total Current Assets: 49,237,825

**Noncurrent Assets:**
- Restricted cash and cash equivalents: 2,893,250
- Other assets: 93,935
- Capital assets, net of accumulated depreciation: 687,712

  Total noncurrent assets: 3,674,897

**Total Assets:** 52,912,722

### LIABILITIES

**Current Liabilities:**
- Accounts payable: 13,073,490
- Accrued liabilities: 20,994,508
- Accrued interest: 40,000
- Current portion of accrued vacation: 210,890
- Current portion of long-term obligations: 2,000,000

  Total Current Liabilities: 36,318,888

**Noncurrent Liabilities:**
- Noncurrent portion of accrued vacation: 386,550
- Noncurrent portion of long-term obligations: 5,600,000

  Total Noncurrent Liabilities: 5,986,550

**Total Liabilities:** 42,305,438

### NET POSITION

- Net investment in capital asset: 687,712
- Restricted: 12,347,490
- Unrestricted: (2,427,918)

  Total Net Position: $10,607,284

The accompanying notes to the financial statements are an integral part of this statement.
ALLIANCE BEHAVIORAL HEALTHCARE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2013

Operating Revenues:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service revenue</td>
<td>$ 195,655,233</td>
</tr>
<tr>
<td>Administrative revenue</td>
<td>24,798,675</td>
</tr>
<tr>
<td>In-kind revenue</td>
<td>398,011</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>220,851,919</strong></td>
</tr>
</tbody>
</table>

Operating Expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service expenses</td>
<td>183,397,652</td>
</tr>
<tr>
<td>Salaries, benefits and fringe</td>
<td>15,959,812</td>
</tr>
<tr>
<td>Professional services</td>
<td>5,630,438</td>
</tr>
<tr>
<td>Operational expenses</td>
<td>4,663,548</td>
</tr>
<tr>
<td>In-kind expenses</td>
<td>403,011</td>
</tr>
<tr>
<td>Depreciation</td>
<td>130,438</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>210,184,899</strong></td>
</tr>
</tbody>
</table>

Operating Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10,667,020</td>
</tr>
</tbody>
</table>

Nonoperating Revenues (Expenses):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income (expense)</td>
<td>(84,513)</td>
</tr>
<tr>
<td>Other income (expense)</td>
<td>2,814</td>
</tr>
<tr>
<td><strong>Total Nonoperating Revenues (Expenses)</strong></td>
<td><strong>(81,699)</strong></td>
</tr>
</tbody>
</table>

Income (loss) before contributions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (loss) before contributions</td>
<td>10,585,321</td>
</tr>
<tr>
<td>Capital contributions</td>
<td>21,963</td>
</tr>
</tbody>
</table>

Increase in net position

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in net position</td>
<td>10,607,284</td>
</tr>
</tbody>
</table>

Total net position, beginning

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total net position, beginning</td>
<td>-</td>
</tr>
</tbody>
</table>

Total net position, ending

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total net position, ending</td>
<td>$ 10,607,284</td>
</tr>
</tbody>
</table>

The accompanying notes to the financial statements are an integral part of this statement.
## Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from operations</td>
<td>$214,707,311</td>
</tr>
<tr>
<td>Payments to employees and fringe benefits</td>
<td>$(14,160,726)</td>
</tr>
<tr>
<td>Payments to vendors and suppliers</td>
<td>$(164,516,348)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$36,030,237</td>
</tr>
</tbody>
</table>

## Cash Flows from Capital and Related Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition and construction of capital assets</td>
<td>$(796,187)</td>
</tr>
<tr>
<td>Proceeds from debt</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Principal payments</td>
<td>$(400,000)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$(44,513)</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>$2,814</td>
</tr>
<tr>
<td><strong>Net cash provided by capital and related financing activities</strong></td>
<td>$6,762,114</td>
</tr>
</tbody>
</table>

## Net Increase in Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>$42,792,351</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, ending</strong></td>
<td>$42,792,351</td>
</tr>
</tbody>
</table>

## Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating income</strong></td>
<td>$10,667,020</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>$130,438</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$(100,727)</td>
</tr>
<tr>
<td>Due from governments</td>
<td>$(4,274,303)</td>
</tr>
<tr>
<td>Due from providers</td>
<td>$(1,769,578)</td>
</tr>
<tr>
<td>Prepaids</td>
<td>$(3,194,116)</td>
</tr>
<tr>
<td>Security deposits</td>
<td>$(93,935)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$13,073,490</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>$20,994,508</td>
</tr>
<tr>
<td>Accrued vacation</td>
<td>$597,440</td>
</tr>
<tr>
<td><strong>Total cash provided by operating activities</strong></td>
<td>$36,030,237</td>
</tr>
</tbody>
</table>

## Noncash Investing, Capital, and Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation of capital assets</td>
<td>$21,963</td>
</tr>
</tbody>
</table>
Note 1—Summary of significant accounting policies

The accounting policies of Alliance Behavioral Healthcare (the “Organization”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

Reporting Entity – The Organization is, by virtue of powers contained in State law (Chapter 122C of the North Carolina General Statutes), delegated the authority to manage the provision of high quality cost-effective mental health, developmental disabilities, and substance abuse services to consumers in Durham and Wake counties effective July 1, 2012. Effective January 1, 2013, the Organization also began servicing Johnston and Cumberland counties through an interlocal agreement. The Organization is governed by a sixteen member Area board, appointed by the Board of Commissioners of the representative counties. As required by generally accepted accounting principles, the accompanying financial statements present the Organization.

Basis of Presentation – The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as prescribed by the Governmental Accounting Standards Board (“GASB”). The full scope of the Organization’s activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Basis of Accounting – The financial statements of the Organization have been prepared using the “economic resources” measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Budgetary Data – The Organization’s budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the Organization. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified basis of accounting. Amendments are required for any revisions that alter total expenses. The governing board must approve all amendments. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

Cash and Cash Equivalents – All cash and investments of the Organization are essentially demand deposits and are considered cash and cash equivalents.

Restricted Assets – With the execution of the Medicaid waiver contract between the North Carolina Department of Health and Human Services, the Division of Medical Assistance (“DMA”), and the Organization, a restricted risk reserve account was established to maintain a minimum required balance for obligations of the contract. Withdraws and disbursements must be approved by DMA. The balance of the risk reserve account is $2,893,250 at June 30, 2013 and considered to be noncurrent. Current restricted assets consisted of money restricted for services provided through Medicaid, state, federal and local grants.

Due From Other Governments – Due from other governments consists of amounts due from federal, state, and local governments related to Medicaid, state allocations and federal grants. These are recorded in the period actual costs are incurred.

Due From Contractors – Due from contractors consists of amounts due from providers related to overpayments of claims. These are recorded in the period the refund is determined to be owed.
Note 1—Summary of significant accounting policies (Continued)

*Miscellaneous Receivables* – Miscellaneous receivables consist primarily of amounts due from sales tax refunds. These are recorded in the period actual costs are incurred.

*Allowance for Doubtful Accounts* – No allowance for future uncollectible accounts is considered necessary as of June 30, 2013 based on billings collection experience during the fiscal year. The concentrations of credit risk of accounts receivable are based on receivables with primarily federal and state (North Carolina) government agencies.

*Prepaid Items* – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

*Capital Assets* – The Organization’s capital assets are recorded at original cost or estimated historical cost. Donated capital assets are recorded at the estimated fair value at the date of donation. Minimum capitalization threshold is $5,000 for all capital assets with the exception of software, which is $100,000. The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend assets’ lives, are not capitalized.

The Organization’s capital assets are depreciated on a straight-line basis over the following estimated useful lives:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Estimated Useful Lives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>7</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>4</td>
</tr>
<tr>
<td>Vehicles</td>
<td>3</td>
</tr>
<tr>
<td>Software</td>
<td>3</td>
</tr>
</tbody>
</table>

*Accrued Vacation* – The Organization’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned less the leave taken between July 1 and June 30.

*Net Position* – The Organization’s net position is classified as follows:

*Net Investment in Capital Assets* – This represents the Organization’s total investment in capital assets, net of the corresponding related debt.

*Restricted* – A portion of net position is restricted by the Division of Medical Assistance for future obligations of the Medicaid waiver. This amount is set aside in a bank account and at June 30, 2013, the balance was $2,893,250. Other amounts restricted by state and local governments at June 30, 2013, are as follows: $3,363,181 restricted for Medicaid services; $4,400,641 restricted for State services; $490,418 restricted for Wake County services; and $1,200,000 restricted for Cumberland County services.

*Unrestricted* – The Organization’s unrestricted net position at June 30, 2013, was a deficit of $2,427,918.
Note 1—Summary of significant accounting policies (Continued)

Revenue and Expense Recognition – The Organization classifies its revenue as operating and nonoperating and its expenses as operating and nonoperating in the accompanying statement of revenues, expenses, and changes in net position. Operating expenses generally result from providing services in connection with the Organization’s principal ongoing operations. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

Operating revenues include monies received from federal, state, and local governments related to Medicaid services, mental health block grants, and other grants. Medicaid service revenues are recognized when monies are received. Grant revenues are recognized when allowable activities and costs in accordance with related grant requirements are incurred.

Nonoperating revenues include activities that have the characteristics of non-exchange transactions. These revenues are classified as capital contributions.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Concentrations – For the year ended June 30, 2013, the Organization received 68% and 19% of their operating revenues from Medicaid fund and the State of North Carolina, respectively.

New Accounting Pronouncements – Effective July 1, 2012, the Organization adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” (Statement No. 63). This implementation required the Organization to present a Statement of Net Position in the Organization’s financial statements. The Organization’s implementation also required the Statement of Net Position to present deferred outflows and inflows of resources in separate sections following total assets and total liabilities sections, respectively. In practice, Statement No. 63 only impacts activities related to derivative instruments or service concession arrangements. The Organization does not have derivative instruments or service concession arrangements.

Effective July 1, 2012, the Organization also adopted the provisions of GASB Statement 65, “Items Previously Reported as Assets and Liabilities” (“Statement No. 65”). There were no items in the Organization’s financial statements affected by the provisions of Statement No. 65.

Note 2—Stewardship, compliance, and accountability

Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes – The Organization’s process related to deposits is not in accordance with State law [G.S. 159-32]. State law requires that all monies received by officers and employees are deposited daily with the finance officer or in an official depository, unless the governing board has given its approval to require deposits only when the money on hand amounts to as much as $250. For fiscal year 2014, the Organization will require all monies received by officers and employees to be deposited daily with the finance officer or in an official depository. Subsequent to year end, the Area Board also approved a policy of requiring daily deposits when the money on hand amounts to as much as $250.
ALLIANCE BEHAVIORAL HEALTHCARE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 3—Deposits

*Deposits* – All of the Organization’s deposits are collateralized under the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Organization, these deposits are considered to be held by their agents in the Organization’s name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Organization or the escrow agent.

Because of the inability to measure the exact amount of collateral pledged for the Organization under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The Organization relies on the State Treasurer to monitor those financial institutions. The Organization analyzes the financial soundness of any other financial institution used by the Organization. The Organization complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Organization has no formal policy regarding custodial credit risk for deposits.

At June 30, 2013, the Organization’s deposits had a carrying amount of $42,792,351 and a bank balance of $43,881,414. Of the bank balance, $43,881,414 was covered by collateral held under the Pooling Method.

Note 4—Due from other governments

Due from other governments at June 30, 2013, consists of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>$ 54,294</td>
</tr>
<tr>
<td>Federal</td>
<td>821,476</td>
</tr>
<tr>
<td>State</td>
<td>182,533</td>
</tr>
<tr>
<td>Local</td>
<td>3,216,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,274,303</strong></td>
</tr>
</tbody>
</table>
Note 5—Capital assets

A summary of changes in the Organization’s capital assets is as follows:

<table>
<thead>
<tr>
<th>Business-Type Activities</th>
<th>Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July 1, 2012</td>
<td></td>
<td></td>
<td>June 30, 2013</td>
</tr>
<tr>
<td>Depreciable Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>$ -</td>
<td>$ 615,695</td>
<td>$ -</td>
<td>$ 615,695</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>-</td>
<td>42,932</td>
<td>-</td>
<td>42,932</td>
</tr>
<tr>
<td>Vehicles</td>
<td>-</td>
<td>21,963</td>
<td>-</td>
<td>21,963</td>
</tr>
<tr>
<td>Software</td>
<td>-</td>
<td>137,560</td>
<td>-</td>
<td>137,560</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>818,150</td>
<td>-</td>
<td>818,150</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>-</td>
<td>78,619</td>
<td>-</td>
<td>78,619</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>-</td>
<td>10,108</td>
<td>-</td>
<td>10,108</td>
</tr>
<tr>
<td>Vehicles</td>
<td>-</td>
<td>7,321</td>
<td>-</td>
<td>7,321</td>
</tr>
<tr>
<td>Software</td>
<td>-</td>
<td>34,390</td>
<td>-</td>
<td>34,390</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>130,438</td>
<td>-</td>
<td>130,438</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$ -</td>
<td>$ 687,712</td>
<td>$ -</td>
<td>$ 687,712</td>
</tr>
</tbody>
</table>

Additions to capital assets include donations of capital assets from Durham County of $21,963.

Note 6—Current Liabilities

Accounts Payable – Payables at June 30, 2013 were as follows:

General payables $ 1,234,050
Payments owed to Providers 11,839,440

$ 13,073,490

Accrued liabilities – Accrued liabilities at June 30, 2013 were as follows:

Accrued services - Providers $ 19,693,704
Accrued payroll 1,201,646
Other accruals 99,158

$ 20,994,508
Note 7—Long-term obligations

Notes payable is summarized as follows:

Note payable to Wake County, payable in annual installments of principal plus interest of 1% based on approved payment schedule, through June 30, 2017, including a final payment of the remaining outstanding balance at June 30, 2017. $ 4,000,000

Note payable to Durham County, payable in annual installments of principal plus interest of 1% based on approved payment schedule, through June 30, 2017, including a final payment of the remaining outstanding balance at June 30, 2017. 3,600,000

Less current portion 7,600,000

Total noncurrent portion 2,000,000

Future maturities of notes payable are as follows:

<table>
<thead>
<tr>
<th>Year Ended June 30,</th>
<th>Principle</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$ 2,000,000</td>
<td>$ 112,000</td>
</tr>
<tr>
<td>2015</td>
<td>1,600,000</td>
<td>56,000</td>
</tr>
<tr>
<td>2016</td>
<td>1,600,000</td>
<td>40,000</td>
</tr>
<tr>
<td>2017</td>
<td>2,400,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Total</td>
<td>$ 7,600,000</td>
<td>$ 232,000</td>
</tr>
</tbody>
</table>

The following is a summary of charges in the Organization’s long-term obligations for the fiscal year ended June 30, 2013:

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Balance</th>
<th>Current Portion of Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July 1, 2012</td>
<td></td>
<td></td>
<td>June 30, 2013</td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>-</td>
<td>8,000,000</td>
<td>400,000</td>
<td>7,600,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Accrued vacation</td>
<td>-</td>
<td>739,278</td>
<td>141,838</td>
<td>597,440</td>
<td>210,890</td>
</tr>
<tr>
<td>Total</td>
<td>$ -</td>
<td>$ 8,739,278</td>
<td>$ 541,838</td>
<td>$ 8,197,440</td>
<td>$ 2,210,890</td>
</tr>
</tbody>
</table>
Note 8—Pension plan obligations

Local Governmental Employees’ Retirement System

Plan Description. The Organization contributes to the state-wide Local Governmental Employees’ Retirement System (‘LGERS’), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees’ Retirement System is included in the Comprehensive Annual Financial Report (“CAFR”) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 707-0540.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Organization is required to contribute at an actuarially determined rate. The current rate is 6.74% of annual covered payroll. The contribution requirements of the members and of the Organization are established and may be amended by the North Carolina General Assembly. The Organization’s contributions to LGERS for the year ended June 30, 2013, were $645,836. The contributions made by the Organization equaled the required contributions for each year.

Deferred Compensation Plan

The Organization offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all the Organization employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In accordance with GASB Statement 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the Organization’s Deferred Compensation Plan requires all assets of the plan to be held in trust for the exclusive benefit of the participants and their beneficiaries. The voluntary contributions by employees amounted to $94,574 for the year ended June 30, 2013.

Other Employment Benefits – IRC Section 401(k) Plan

All members of the Local Government Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No administrative costs are incurred by the Organization. The Organization contributes 5% of participants’ eligible compensation. Total amount contributed to the Plan by the Organization amounted to $482,247 for the year ended June 30, 2013. The voluntary contributions by employees amounted to $226,739 for the year ended June 30, 2013.

Note 9—Risk management

The Organization is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization has established a risk management program to account for and finance its uninsured risks of loss.

Under the Organization’s risk management program, the risk management program provides coverage for health insurance up to no specified dollar limit for each individual claim. The Organization purchases commercial insurance for individual claims in excess of $3,000,000 and aggregate claims in excess of $5,000,000. Settled claims have not exceeded this commercial coverage in the fiscal year.
Note 9—Risk management (continued)

The Organization carries business personal property insurance with amounts of coverage of $1,746,642 for blanket business coverage and $750,000 for computer contents in the Organization’s offices. There is a $1,000 deductible for each.

In accordance with G.S. 159-29, the Organization employees who have access to $100 or more of the Organization’s funds at any given time are covered under the crime section of the risk management blanket bond coverage of $100,000 with a $1,000 deductible. The CEO, CFO, and Finance Director are individually bonded for $500,000 each.

The Organization carries commercial coverage against all other risks of loss, including property and general liability insurance.

Note 10—Operating leases

The Organization entered into an operating lease agreement with Highwoods Realty Limited Partnership for the rental of a building in Raleigh, North Carolina, through July 2019. The lease agreement does not qualify as a capital lease for accounting purposes and, therefore, the lease payments have been recorded as operating expenses in the period incurred. Payments are due monthly ranging from $9,571 to $22,857 during the life of the lease.

The Organization entered into an operating lease agreement with Research Triangle Regional Public Transportation Authority for the rental of a building in Durham, North Carolina, through December 2018. The lease agreement does not qualify as a capital lease for accounting purposes and, therefore, the lease payments have been recorded as operating expenses in the period incurred. Payments are due monthly ranging from $77,078 to $84,897 during the life of the lease.

The Organization entered into two operating lease agreement with the County of Durham for the rental of two buildings in Durham, North Carolina, through June 2013 and June 2015. The lease agreement does not qualify as a capital lease for accounting purposes and, therefore, the lease payments have been recorded as operating expenses in the period incurred. Payments are due monthly at $8,297 per month for the lease that ended in June 2013. Payments are due monthly ranging from $23,535 to $24,968 during the life of the lease for the lease that ends June 2015.

The Organization entered into operating lease agreements for multiple printers and copiers, expiring in June 2015. The lease agreements do not qualify as capital leases for accounting purposes and, therefore, the lease payments have been recorded as operating expenses in the period incurred. Minimum monthly payments are $4,089 for a total of ten printers and copiers.
Note 10—Operating leases (continued)

Total lease payments charged to expense accounts for the year ended June 30, 2013, under operating leases amounted to $1,344,350. Future minimum lease payments under operating leases that have remaining terms in excess in one year as of June 30, 2013, are as follows:

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$1,431,618</td>
</tr>
<tr>
<td>2015</td>
<td>1,473,094</td>
</tr>
<tr>
<td>2016</td>
<td>1,158,144</td>
</tr>
<tr>
<td>2017</td>
<td>1,192,888</td>
</tr>
<tr>
<td>2018</td>
<td>1,250,866</td>
</tr>
<tr>
<td>2019-2023</td>
<td>801,866</td>
</tr>
<tr>
<td></td>
<td><strong>$7,308,476</strong></td>
</tr>
</tbody>
</table>

Note 11—Summary disclosure of significant commitments and contingencies

_Federal and State-Assisted Programs_ – The Organization has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in a refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of any grant monies.

Note 12—Subsequent events

In connection with the preparation of the financial statements and in accordance with U.S. GAAP, the Organization considered for disclosure subsequent events that occurred after the statement of net position date of June 30, 2013, through October 28, 2013, which was the date the financial statements were available to be issued.

The Organization entered into a contract effective July 8, 2013, with Cumberland County for the purpose of consolidating the single-county Cumberland Area Authority into the multi-county Alliance Area Authority. Funding obligations will be shared proportionally between Cumberland, Durham, and Wake Counties not to exceed a total of $8,000,000. Both Durham and Wake Counties have each contributed $4,000,000 to the Organization in the form of a loan. Cumberland agrees to remit a total of $1,584,000 to the Organization towards this obligation in two equal payments. According to the agreement, the first payment shall be remitted on or before July 1, 2013, and the second payment shall be remitted on or before July 1, 2014, however, as of October 28, 2013, the first payment has yet to be received.
SUPPLEMENTAL SCHEDULES
# ALLIANCE BEHAVIORAL HEALTHCARE
## BALANCE SHEET (NON-GAAP)
### JUNE 30, 2013

## ASSETS

### Current Assets:
- Cash and cash equivalents: $30,444,861
- Restricted cash and cash equivalents: 9,454,240
- Due from other governments: 4,274,303
- Due from contractors: 1,769,578
- Miscellaneous receivables: 100,727
- Prepaids: 3,194,116

Total Current Assets: $49,237,825

### Noncurrent Assets:
- Restricted cash and cash equivalents: 2,893,250
- Other assets: 93,935

Total noncurrent assets: 2,987,185

**Total Assets**: $52,225,010

## LIABILITIES

### Liabilities:
- Accounts payable: $13,073,490
- Accrued liabilities: 20,994,508

Total Liabilities: 34,067,998

## FUND BALANCES

### Restricted:
- Medicaid risk reserve: 2,893,250
- Services: 9,454,240
- Unrestricted: 5,809,522

Total Fund Balances: 18,157,012

**Total Liabilities and Fund Balances**: $52,225,010
ALLIANCE BEHAVIORAL HEALTHCARE
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2013

Amounts reported in the statement of net position are different because:

Ending fund balance $ 18,157,012

Capital assets used are not financial resources and, therefore, are not reported in the funds. 687,712

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

- Long-term debt (7,600,000)
- Accrued vacation (597,440)
- Accrued interest (40,000)

Net position $ 10,607,284
## ALLIANCE BEHAVIORAL HEALTHCARE

**SCHEDULE OF REVENUES AND EXPENDITURES**
**BUDGET AND ACTUAL (NON-GAAP)**

**YEAR ENDED JUNE 30, 2013**

### OPERATING REVENUES

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual</th>
<th>Variance Over/Under</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>$ 142,241,650</td>
<td>$ 136,772,197</td>
<td>$(5,469,453)</td>
</tr>
<tr>
<td>Federal</td>
<td>7,410,659</td>
<td>5,050,587</td>
<td>(2,360,072)</td>
</tr>
<tr>
<td>State</td>
<td>33,560,440</td>
<td>33,104,563</td>
<td>(455,877)</td>
</tr>
<tr>
<td>Local</td>
<td>21,199,987</td>
<td>21,125,897</td>
<td>(74,090)</td>
</tr>
<tr>
<td><strong>Administrative Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>14,545,000</td>
<td>14,372,544</td>
<td>(172,456)</td>
</tr>
<tr>
<td>State</td>
<td>9,494,333</td>
<td>9,385,669</td>
<td>(108,664)</td>
</tr>
<tr>
<td>Local</td>
<td>967,444</td>
<td>1,040,462</td>
<td>73,018</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>229,419,513</td>
<td>220,851,919</td>
<td>$(8,567,594)</td>
</tr>
</tbody>
</table>

### NONOPERATING REVENUES

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual</th>
<th>Variance Over/Under</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other income</td>
<td>30,000</td>
<td>2,814</td>
<td>(27,186)</td>
</tr>
<tr>
<td><strong>Total Nonoperating Revenues</strong></td>
<td>30,000</td>
<td>2,814</td>
<td>(27,186)</td>
</tr>
</tbody>
</table>

**Total Revenues**

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual</th>
<th>Variance Over/Under</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>229,449,513</td>
<td>220,854,733</td>
<td>$(8,594,780)</td>
</tr>
</tbody>
</table>

### EXPENDITURES

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual</th>
<th>Variance Over/Under</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service Expenditures:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>139,501,817</td>
<td>130,515,767</td>
<td>8,986,050</td>
</tr>
<tr>
<td>Federal</td>
<td>6,511,871</td>
<td>3,676,379</td>
<td>2,835,492</td>
</tr>
<tr>
<td>State</td>
<td>33,560,440</td>
<td>29,554,754</td>
<td>4,005,686</td>
</tr>
<tr>
<td>Local</td>
<td>21,199,987</td>
<td>20,053,763</td>
<td>1,146,224</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>16,354,968</td>
<td>15,959,812</td>
<td>395,156</td>
</tr>
<tr>
<td>Other operational expenditures</td>
<td>18,440,428</td>
<td>10,293,986</td>
<td>8,146,442</td>
</tr>
<tr>
<td><strong>Total Operating Expenditures</strong></td>
<td>235,569,511</td>
<td>210,054,461</td>
<td>25,515,050</td>
</tr>
</tbody>
</table>

| Debt Service:       |              |            |                     |
| Payments            | 800,000      | 400,000    | 400,000             |
| Interest            | 80,002       | 44,513     | 35,489              |
| **Total Debt Service** | 880,002 | 444,513 | 435,489 |

| Capital Outlay:     |              |            |                     |
| Equipment purchases | 1,000,000    | 796,187    | 203,813             |
| **Total Capital Outlay** | 1,000,000 | 796,187 | 203,813 |

**Revenues over (under) expenditures**

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual</th>
<th>Variance Over/Under</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(8,000,000)</td>
<td>9,559,572</td>
<td>17,559,572</td>
</tr>
</tbody>
</table>
### ALLIANCE BEHAVIORAL HEALTHCARE

**SCHEDULE OF REVENUES AND EXPENDITURES**

**BUDGET AND ACTUAL (NON-GAAP)**

**YEAR ENDED JUNE 30, 2013**

<table>
<thead>
<tr>
<th>Final Budget</th>
<th>Actual</th>
<th>Variance Over/Under</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OTHER FINANCING SOURCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from debt</td>
<td>8,000,000</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Total other financing sources</td>
<td>8,000,000</td>
<td>8,000,000</td>
</tr>
<tr>
<td><strong>Revenues and other sources over expenditures</strong></td>
<td>$</td>
<td>-</td>
</tr>
</tbody>
</table>

**RECONCILIATION FROM BUDGETARY BASIS**

**(MODIFIED ACCRUAL) TO FULL ACCRUAL:**

Reconciling Items:
- Capital outlay: 796,187
- Capital contributions: 21,963
- Depreciation: (130,438)
- Payments on debt service: 400,000
- Proceeds from debt: (8,000,000)
- Accrued interest: (40,000)

Total reconciling items: (6,952,288)

Change in net position: $ 10,607,284
October 28, 2013

To the Area Board
Alliance Behavioral Healthcare
Durham, North Carolina

We have audited the financial statements of Alliance Behavioral Healthcare (the “Organization”), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards, OMB Circular A-133, and the State Single Audit Implementation Act, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 31, 2013. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Organization’s financial statements were:

- Management’s estimate of the depreciation expense is based on depreciable lives. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management’s estimate of incurred but not reported expenses is based on trends in each month since Medicaid waiver became effective on February 1, 2013. We evaluated the key factors and assumptions used to estimate the accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.
Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements noted during the audit.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated October 28, 2013.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves an application of an accounting principle to the Organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed during the year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of management, others within the Organization, the governing board, federal and state awarding agencies, and pass-through agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Raleigh, North Carolina
ALLIANCE BEHAVIORAL HEALTHCARE

COMPLIANCE REPORT

As of and for the Year Ended June 30, 2013

And Report of Independent Auditor
Report of Independent Auditor on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report of Independent Auditor on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

Report of Independent Auditor on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

Schedule of Findings and Questioned Costs

Schedule of Corrective Action Plan

Schedule of Expenditures of Federal and State Awards

Notes to the Schedule of Expenditures of Federal and State Awards
Report of Independent Auditor on Internal Control over Financial Reporting and On Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Area Board
Alliance Behavioral Healthcare
Durham, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Alliance Behavioral Healthcare (the “Organization”), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Organization’s basic financial statements, and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 13-01.
Organization’s Response to Findings
The Organization’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raleigh, North Carolina
October 28, 2013
Report of Independent Auditor on Compliance for each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

The Area Board
Alliance Behavioral Healthcare
Durham, North Carolina

Report on Compliance for Each Major Federal Program
We have audited Alliance Behavioral Healthcare’s (the “Organization”) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Organization’s major federal programs for the year ended June 30, 2013. The Organization’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor’s Responsibility
Our responsibility is to express an opinion on compliance for each of the Organization’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major Federal Program
In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.
Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization’s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal and State Awards

We have audited the statement of net position of the Organization as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements. We issued our report thereon dated October 28, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization’s basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State Single Audit Implementation Act and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In in our opinion, the schedule of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Raleigh, North Carolina
October 28, 2013
Report of Independent Auditor on Compliance for each Major State Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

The Area Board
Alliance Behavioral Healthcare
Durham, North Carolina

Report on Compliance For Each Major State Program
We have audited Alliance Behavioral Healthcare’s (the “Organization”), compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013. The Organization’s major state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor’s Responsibility
Our responsibility is to express an opinion on compliance for each of the Organization’s major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major State Program
In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of section OMB Circular A-133 as described in the Audit Manual for Governmental Auditors in North Carolina and which are described in the accompanying schedule of findings and questioned costs as items 13-02 through 13-07. Our opinion on each major state program is not modified with respect to these matters.
Other Matters (Continued)
The Organization’s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization’s internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal and State Awards
We have audited the statement of net position of the Organization as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements. We issued our report thereon dated October 28, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization’s basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State Single Audit Implementation Act and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Raleigh, North Carolina
October 28, 2013
I. Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified? Yes X No
- Non-compliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified? Yes X No

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Major federal programs for Alliance Behavioral Healthcare for the year ended June 30, 2013 are:

<table>
<thead>
<tr>
<th>CFDA #</th>
<th>Program Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>93.243</td>
<td>BECOMING Grant</td>
</tr>
<tr>
<td>93.778</td>
<td>Medical Assistance Program</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between Type A and Type B Programs: $3,000,000

Auditee qualified as low-risk auditee? Yes X No
I. Summary of Auditor’s Results (continued)

State Awards
Internal control over major State programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified? Yes X No

Type of auditor’s report issued on compliance for major State programs: Unmodified

Any findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? Yes X No

Major State programs for Alliance Behavioral Healthcare for the year ended June 30, 2013 are:

Program Name
LME Systems Management
3 Way
Single Stream Line Funding

II. Findings Related to the Audit of the Basic Financial Statements

Finding 13-01

NONMATERIAL NONCOMPLIANCE

Criteria: In accordance with North Carolina General Statute 159-32, all monies received by officers and employees shall be deposited daily with the finance officer or in an official depository, unless the governing board has given its approval to require daily deposits only when the money on hand amounts to as much as $250.

Condition: During the year, deposits were held by employees other than the finance officer and were not deposited daily. There was not a policy in place allowing money less than $250 to be held on hand.

Context: As the Organization completed the North Carolina General Statutes 159 checklist in preparation for the audit, it was noted by the Finance Director that the Organization had not been in compliance with this law at times during the year.

Effect: Money on hand was not deposited daily in accordance with North Carolina law.

Cause: The Organization was researching whether unexpected receipts from provider refunds were in fact owed to the Organization before depositing.

Recommendation: Management and the Area Board should make changes to their procedures relating to receipts in order to ensure that the Organization follows North Carolina laws.
II. Findings Related to the Audit of the Basic Financial Statements (continued)

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and has since corrected the procedures surrounding money on hand to be in compliance with North Carolina General Statutes. The Area Board has also approved a policy requiring daily deposits only when the money on hand amounts to as much as $250.

III. Findings, Responses, and Questioned Costs Related to the Audit of Federal Awards

None reported.

IV. Findings, Responses, and Questioned Costs Related to the Audit of State Awards

NC Department of Health and Human Services
Program Name: Single Stream Line Funding

Finding 13-02

NONMATERIAL NONCOMPLIANCE

Eligibility

Criteria: According to the NC DHHS Compliance Supplement, service codes must be authorized for a certain period before services can be provided to a patient.

Condition: Although patient was determined to be eligible for the specific service code, one patient received service prior to authorization period.

Questioned Costs: There were no questioned costs since the patient was eligible for the service.

Context: Of the 40 patients we examined, services were provided to one patient prior to authorization period for that service.

Effect: Service periods are not being properly authorized prior to services being rendered. There is a potential for services to be provided to patients that do not qualify for those services.

Cause: Due to an error in the Alpha system under the service code, the provider was able to submit a claim without a proper authorization period for that particular service code.

Recommendation: Authorization error in the Alpha system should be corrected.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and has since corrected the authorization error in the Alpha system.
IV. Findings, Responses, and Questioned Costs Related to the Audit of State Awards (continued)

NC Department of Health and Human Services  
Program Name: Single Stream Line Funding

Finding 13-03

NONMATERIAL NONCOMPLIANCE  
Activities Allowed or Unallowed

Criteria: In accordance with Administrative Publication Systems Manual 45-2, costs billed must be supported with a service note. On the date of service billed, providers are responsible for documenting services provided in a service note related to the allowable activity.

Condition: The provider did not document a service note for one patient on the date of service billed.

Questioned Costs: $19. The amount was the total claim billed without a service note.

Context: Of the 40 patients examined, we determined that one patient did not have a service note for the date of service billed.

Effect: The costs billed may have been an unallowable activity.

Cause: Provider did not keep adequate documentation of services provided.

Recommendation: Additional monitoring should be performed over providers in which documentation of services appear to be inadequate.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and has various post payment monitoring functions in place.

NC Department of Health and Human Services  
Program Name: 3 Way

Finding 13-04

NONMATERIAL NONCOMPLIANCE  
Cash Management

Criteria: In accordance with contract with NC DHHS, claims must be submitted to NC DHHS through IPRS within 15 working days of receipt of clean claim from the hospital.

Condition: Three claims were not submitted to the NC DHHS within 15 working days of receipt of clean claim from hospital.

Questioned Costs: There were no questioned costs since the claims were submitted and eligible for reimbursement.

Context: Of the 40 claims examined, 3 claims were not submitted to the NC DHHS within 15 working days.

Effect: Claims were not submitted in a timely manner.
IV. Findings, Responses, and Questioned Costs Related to the Audit of State Awards (continued)

Cause: Original claims submitted were denied and the process for resubmitting the claim took additional time.

Recommendation: Additional monitoring should be performed in order to make sure clean claims are submitted timely.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and will implement adequate procedures to ensure that this problem does not recur.

NC Department of Health and Human Services
Program Name: 3 Way

Finding 13-05

NONMATERIAL NONCOMPLIANCE
Cash Management

Criteria: In accordance with contract with NC DHHS, payments must be remitted to Community Hospital Contractor within 10 working days of receipt of payment from NC DHHS.

Condition: One payment was not remitted to the Community Hospital Contractor within 10 working days of receipt of payment from the NC DHHS.

Questioned Costs: There were no questioned costs since payment was remitted to the hospital.

Context: Of the eight invoices submitted, two invoices were examined and one invoice was not paid within 10 working days of receipt of payment from NC DHHS.

Effect: Payment was not remitted in a timely manner.

Cause: Payment was received just before the holidays and Organization was closed for three days causing the payment to be pushed back to the next check run date.

Recommendation: The Organization should monitor their receipts for this grant and ensure that payments to the Community Hospital Contractor are remitted within the required time period after receipt of funds.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and will implement adequate procedures to ensure that this problem does not recur.

NC Department of Health and Human Services
Program Name: LME Systems Management

Finding 13-06

NONMATERIAL NONCOMPLIANCE
Procurement, Suspension and Debarment

Criteria: According to the NC DHHS Compliance Supplement, contracts between the Organization and the provider should be fully executed by all parties prior to the effective date of the contract.
IV. Findings, Responses, and Questioned Costs Related to the Audit of State Awards (continued)

Condition: Multiple contracts were not fully executed by all parties prior to the effective date of the contract.

Questioned Costs: There were no questioned costs since contracts were fully executed before payments were made to the providers.

Context: Of the 40 contracts examined, 26 contracts were not signed by one or more authorized parties prior to the effective date of the contracts.

Effect: Contracts were not fully executed prior to effective date. Payments to providers should not be made prior to have a fully executed contract.

Cause: In most cases, the Organization was not able to get the contract back from the providers in a timely manner, so payments were not made to those providers until the contract was fully executed.

Recommendation: Contracts should be sent out earlier and additional notifications should be made to providers in order to urge them to execute the contract in a timely manner.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and will implement procedures to help ensure that this problem occurs less frequently in the future. Since the Organization has to rely on providers for completion of this process, it may be difficult to completely eliminate noncompliance with this requirement.

**NC Department of Health and Human Services**
Program Name: LME Systems Management

Finding 13-07

NONMATERIAL NONCOMPLIANCE

Reporting

Criteria: The Organization is responsible for submitting reports to the appropriate authority in a timely manner.

Condition: Multiple reports were not submitted to the appropriate authority in a timely manner.

Questioned Costs: There were no questioned costs since reports were submitted to the appropriate authority.

Context: Of the 37 reports examined, eight reports were not submitted in a timely manner.

Effect: Information is not available to the appropriate authority in a timely manner.

Cause: Proper monitoring of reporting deadlines is not performed and the Organization was short staffed at times during the year.

Recommendation: Monitoring procedures should be implemented to make sure responsible staff are held accountable for the Organization’s reporting deadlines.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and will implement adequate procedures to ensure that this problem does not recur.
Section II – Financial Statement Findings

Finding 13-01

Name of contact person: Sara Pacholke, Finance Director

Corrective Action: Subsequent to year end the Area Board approved an increase in the daily deposit requirement to $250. In addition, procedures were changed to improve handling of unexpected receipts from provider refunds. Finally, all monies not deposited daily will be given to the Finance Officer to lock up and maintain until depositing.

Proposed Completion Date: Completed 9/5/2013

Section III – Federal Award Findings and Questioned Costs

There are no findings that require action.

Section IV – State Award Findings and Questioned Costs

Finding 13-02

Name of contact person: Sara Pacholke, Finance Director

Corrective Action: The Organization recently went through a data integrity project which involved many components such as service and benefit plan review. The task was to ensure that service codes were set up correctly, and in this case, to ensure that authorization requirements were setup. The Organization has weekly meetings with their software vendor to address any issues in order to resolve them swiftly and with accuracy.

Proposed Completion Date: Data Integrity Project completed 9/30/13, Ongoing

Finding 13-03

Name of contact person: Sara Pacholke, Finance Director

Corrective Action: The Organization has three different post payment monitoring functions in place to monitor providers, including provider networks monitoring, claims monitoring and compliance monitoring. The Provider Networks evaluation team is conducting initial monitoring under the Gold Star Monitoring system. That monitoring includes post payment reviews, one element of which is monitoring of service notes. The post payment review tool clearly states when out of compliance items require payback. Absence of service notes or service notes which do not meet documentation requirements are cited, and recoupment is required. Claims monitoring includes randomly sampling 10% of paid claims every day and calling providers for documentation of the selected claims to verify date of service, service codes, units, amount paid, credentials and diagnosis code. The Compliance Department has a Special Investigations Unit including a Supervisor, two certified Investigators, and a Data Analyst. Their sole function is to detect fraud and abuse in the Provider Network.

Proposed Completion Date: Ongoing
Section IV – State Award Findings and Questioned Costs (continued)

Finding 13-04

Name of contact person: Sara Pacholke, Finance Director

Corrective Action: In working with our software vendor, the Organization has a method to submit all claims processed during the week to the State. The State implemented a new claims processing system on July 1st which will require the Organization to follow claims closely and work with the State on errors.

Proposed Completion Date: Ongoing

Finding 13-05

Name of contact person: Sara Pacholke, Finance Director

Corrective Action: The Organization has updated procedures to ensure that all functions will be completed the first business day after a holiday has occurred.

Proposed Completion Date: 9/30/2013

Finding 13-06

Name of contact person: Sara Pacholke, Finance Director

Corrective Action: The Organization attempts to have all contracts fully executed by all parties prior to the effective date of the contract; however this is not fully in the Organization’s control since providers have to submit the signed contract to us in a timely manner. The Organization has a policy in place to not pay any providers until a full executed contract is in place.

Proposed Completion Date: Ongoing

Finding 13-07

Name of contact person: Sara Pacholke, Finance Director

Corrective Action: The Organization currently has staff in place to prepare the reports as well as supervisors to review the report. Both are responsible for ensuring reports are submitted to the State timely.

Proposed Completion Date: Ongoing
### ALLIANCE BEHAVIORAL HEALTHCARE

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**YEAR ENDED JUNE 30, 2013**

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Federal CFDA #</th>
<th>Federal Expenditures</th>
<th>State Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Department of Housing and Urban Development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Planning and Development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed-through the Office of Economic Recovery and Investment:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dash</td>
<td>14.235</td>
<td>$ 25,901</td>
<td>-</td>
</tr>
<tr>
<td>Embrace</td>
<td>14.235</td>
<td>73,223</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total U.S. Dept. of Housing and Urban Development</strong></td>
<td></td>
<td></td>
<td>99,125</td>
</tr>
<tr>
<td><strong>Substance Abuse and Mental Health Administration</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed-through the N.C. Dept. of Health and Human Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Division of Mental Health, Developmental Disabilities and Substance Abuse Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects for Assistance in Transition from Homelessness (PATH)</td>
<td>93.150</td>
<td>300,449</td>
<td>-</td>
</tr>
<tr>
<td>Block Grant for Community Mental Health Services - Community Based Program - Mental Health</td>
<td>93.958</td>
<td>681,355</td>
<td>-</td>
</tr>
<tr>
<td>Social Services Block Grant - BECOMING Grant</td>
<td>93.243</td>
<td>953,902</td>
<td></td>
</tr>
<tr>
<td>Block Grant for Prevention and Treatment of Substance Abuse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Substance abuse block grant</td>
<td>93.959</td>
<td>1,583,959</td>
<td>-</td>
</tr>
<tr>
<td>- Substance Abuse HIV Set aside</td>
<td>93.959</td>
<td>214,398</td>
<td>-</td>
</tr>
<tr>
<td>- Substance Abuse - Substance Abuse Prevention</td>
<td>93.959</td>
<td>831,682</td>
<td>-</td>
</tr>
<tr>
<td><strong>Health Care Financing Administration</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed-through the N.C. Dept. of Health and Human Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Division of Medical Assistance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Benefit Payments:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Assistance Program</td>
<td>93.778</td>
<td>125,231,801</td>
<td></td>
</tr>
<tr>
<td>Medical Assistance Program</td>
<td>93.778</td>
<td>6,482,221</td>
<td></td>
</tr>
<tr>
<td><strong>State Awards:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N.C. Dept. of Health and Human Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Division of Mental Health, Developmental Disabilities and Substance Abuse Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LME Systems Management</td>
<td></td>
<td>9,254,853</td>
<td></td>
</tr>
<tr>
<td>Single Stream Line Funding</td>
<td></td>
<td>27,948,293</td>
<td></td>
</tr>
<tr>
<td>Criminal Justice</td>
<td></td>
<td>55,803</td>
<td></td>
</tr>
<tr>
<td>3 Way</td>
<td></td>
<td>840,988</td>
<td></td>
</tr>
<tr>
<td>DOJ</td>
<td></td>
<td>6,468</td>
<td></td>
</tr>
<tr>
<td><strong>Total Federal and State awards</strong></td>
<td></td>
<td>$ 136,378,892</td>
<td>$ 38,106,405</td>
</tr>
</tbody>
</table>
Note 1—General

The schedule of expenditures of federal and state awards (the “Schedule”) presents the activities of all federal and state financial awards programs of Alliance Behavioral Healthcare (the “Organization”). The reporting entity is defined in Note 1 to the Organization’s basic financial statements. All federal and state financial awards passed through other government agencies are included in the Schedule.

Note 2—Basis of Accounting

The accompanying Schedule is presented using the full accrual basis of accounting, which is described in Note 1 to the Organization’s basic financial statements.
To Management of
Alliance Behavioral Healthcare
Durham, North Carolina

In planning and performing our audit of the financial statements of Alliance Behavioral Healthcare (the “Organization”) as of and for the year ended June 30, 2013 in accordance with auditing standards generally accepted in the United States of America, we considered the Organization’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The following matters came to our attention during our audit procedures over Information Technology (“IT”) controls. These are other internal control matters that are not categorized as material weaknesses or significant deficiencies.

**IT Entity Level Controls**

During our review of the internal controls over information technology we noted that the Organization performed quarterly assessments which include optimization assessments and determining security holes; however, they have not performed a formal risk assessment of the information technology that is currently in place. A risk assessment is an assessment of the risk faced by information technologies at the Organization. This document should identify and classify potential risks to the central IT infrastructure and resources, document obstacles precluding elimination of these identified risks and then recognize the Organization’s acceptance of those risks. A risk assessment should be updated with the results of audits, inspections, and identified incidents. The scope should include risks related to the confidentiality, availability, and integrity of critical data and resources. As a main deliverable of this risk assessment, documented policies and procedures related to IT Security should be developed and implemented. Once approved, the policies and procedures should be updated annually and approved by the Area Board. Additionally all employees should sign-off on these policies stating they agree to adhere to set policies and procedures. We also noted that the Organization plans on completing a formal IT Risk Assessment in October of 2013.

We recommend that the Organization complete a formal IT risk assessment, ideally by an independent outside entity, at least annually to identify and assess high risk areas in the Organization’s IT environment. Results of the assessment should be shared with upper management and incorporated into the Organization’s IT Strategic Plan and/or Audit Plan as appropriate.

<table>
<thead>
<tr>
<th>IT Entity Level Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>During our review of the internal controls over information technology we noted that the Organization performed quarterly assessments which include optimization assessments and determining security holes; however, they have not performed a formal risk assessment of the information technology that is currently in place. A risk assessment is an assessment of the risk faced by information technologies at the Organization. This document should identify and classify potential risks to the central IT infrastructure and resources, document obstacles precluding elimination of these identified risks and then recognize the Organization’s acceptance of those risks. A risk assessment should be updated with the results of audits, inspections, and identified incidents. The scope should include risks related to the confidentiality, availability, and integrity of critical data and resources. As a main deliverable of this risk assessment, documented policies and procedures related to IT Security should be developed and implemented. Once approved, the policies and procedures should be updated annually and approved by the Area Board. Additionally all employees should sign-off on these policies stating they agree to adhere to set policies and procedures. We also noted that the Organization plans on completing a formal IT Risk Assessment in October of 2013.</td>
</tr>
</tbody>
</table>

We recommend that the Organization complete a formal IT risk assessment, ideally by an independent outside entity, at least annually to identify and assess high risk areas in the Organization’s IT environment. Results of the assessment should be shared with upper management and incorporated into the Organization’s IT Strategic Plan and/or Audit Plan as appropriate.
Access and Security Controls

During our review of the internal controls over information technology we noted that the Organization does not perform an annual review of access privileges to the financial applications or network. Access privileges to the financial applications should be periodically reviewed by the users' management to verify that the level of access still accurately reflects the minimum level required for the user to perform their job function and accurately reflects an appropriate level of segregation of duties within logical access.

We recommend that the Organization perform scheduled periodic reviews of user access for all financially significant applications and network on an annual basis in order to identify unauthorized/inappropriate access based on job function, as well as to identify any terminated users who have remained active in the application or network. System generated lists of users should be sent to the appropriate supervisor for review. This review should be documented with a response indicating whether or not access changes are required. If so, each access change should be documented appropriately using a formal access request form.

This information is intended solely for you, others within the Organization, or the governing board and is not intended to be, and should not be, used by anyone other than these specified parties.

Raleigh, North Carolina
October 28, 2013
ITEM: Consumer and Family Advisory Committee (CFAC) Report

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
The Alliance Consumer and Family Advisory Committee, or CFAC, is made up of consumers and/or family members that live in Durham, Wake, or Cumberland Counties who receive mental health, intellectual/developmental disabilities and substance use/addiction services. CFAC is a self-governing committee that serves as an advisor to Alliance administration and Board of Directors.

State statutes charge CFAC with the following responsibilities:
- Review, comment on and monitor the implementation of the local business plan
- Identify service gaps and underserved populations
- Make recommendations regarding the service array and monitor the development of additional services
- Review and comment on the Alliance budget
- Participate in all quality improvement measures and performance indicators
- Submit findings and recommendations to the State Consumer and Family Advisory Committee regarding ways to improve the delivery of mental health, intellectual/other developmental disabilities and substance use/addiction services.

The Alliance CFAC meets at 5:30pm on the first Monday in the months of February, April, June, August, October and December at the Alliance Corporate Office, 4600 Emperor Boulevard, Durham. Subcommittee meetings are held in individual counties, the schedules for those meetings are available on our website.

The Alliance CFAC tries to meet its statutory requirements by providing you with the minutes to our meetings, letters to the board, participation on committees, outreach to our communities, providing input to policies effecting consumers, and by providing the Board of Directors and the State CFAC with an Annual Report as agreed upon in our Relational Agreement describing our activities, concerns, and accomplishments.

The Alliance CFAC is currently chaired by Dan Shaw while Maribel Rivera-Elias serves as vice-chair.

REQUEST FOR BOARD ACTION:
Receive the October 7, 2013 minutes from the full Alliance Consumer and Family Advisory Committee.

CEO RECOMMENDATION:
Receive the minutes.

RESOURCE PERSON(S):
Doug Wright, Dan Shaw, Maribel Rivera-Elias
# Consumer Family Advisory Committee (CFAC) Minutes
## October 7, 2013

<table>
<thead>
<tr>
<th>Members Present:</th>
<th>Faye Griffin</th>
<th>Wes Rider-phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dan Shaw-Chairman</td>
<td>David Curro</td>
<td></td>
</tr>
<tr>
<td>Maribel Rivera-Elias-Vice-Chair</td>
<td>Lotta Fisher</td>
<td></td>
</tr>
<tr>
<td>Caroline Ambrose-Secretary</td>
<td>LME/MCO</td>
<td></td>
</tr>
<tr>
<td>Anna Cunningham</td>
<td>Debra Duncan</td>
<td></td>
</tr>
<tr>
<td>Joe Kilsheimer</td>
<td>Doug Wright</td>
<td></td>
</tr>
<tr>
<td>Colleen Kilsheimer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orah Raia</td>
<td>Johnetta Alston</td>
<td>State Staff:</td>
</tr>
<tr>
<td>Caroline Ambrose-Secretary</td>
<td></td>
<td>Israel Patterson</td>
</tr>
<tr>
<td>Tammy Harrington</td>
<td>Roanna Newton-phone</td>
<td></td>
</tr>
</tbody>
</table>

**Start Time**

<table>
<thead>
<tr>
<th>CFAC Agenda Item</th>
<th>CFAC Discussion, Conclusions, Recommendations</th>
<th>CFAC Action, Follow-up</th>
<th>Person Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welcome/Minutes</td>
<td>Dan welcomed everyone.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Comments</td>
<td>No Public Comments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Lazarus</td>
<td>Mark Sullivan- Duke Social Worker presented on Project Lazarus. Project Lazarus is a community-wide response to a problem that is devastating communities all across the nation: fatal drug overdoses. For a comprehensive description of the project you may visit <a href="https://www.communitycarenc.org/population-management/chronic-pain-project/">https://www.communitycarenc.org/population-management/chronic-pain-project/</a></td>
<td>Mark Sullivan will send Doug Wright the power point presentation, to be shared with CFAC members.</td>
<td>Mark Sullivan</td>
</tr>
<tr>
<td>Committee Reports</td>
<td>Data Com:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Israel created a Google Plus account/page for CAFC</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• A Face Book Page is being developed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Please let Data Com know if you have any suggestions to make communication better.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Data Com will meet on October 14, 2013-5:00 at</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4600 Emperor Blvd.

- It was suggested that a survey be created to determine what platforms folks like for CFA communication

QM:
- The group is looking for a chairperson
- There has been an increase in IDD slots for Alliance consumers.
- A DMA criterion is being used for reports.
- The group wants to meet Thursday, October 10, 2013.

Human Rights Committee:
- The group is looking at trends, grievances and incidents.
- Ann C wanted, as a family member of a consumer, to Say “THANK YOU” to the group for the reconsideration process.
- It was suggested that there be education on the appeal process offered.

Wake County:
- Maribel has become the Chairperson for the Wake subgroup committee.
- Dr. Richards has taken over for Patti Beardsley

Durham County:
- The September meeting held a discussion on the Local business plan
- Roanna Newton went over the Consumer Empowerment Update

Cumberland County:
- The September meeting was devoted to a discussion on the Business plan and the desire to have more crisis services was introduced.

Cardinal and Alliance CFAC met to plan the Statewide
CFAC Meeting:
- This will be held on December 4, 2013 at Extraordinary Ventures.
- The next meeting of the planning committee is November 19, 2013.

CFAC Executive Board Meeting:
- If there is interest in attending a conference please send Doug Wright or Dan Shaw the information: Name of Conference and description of event, full name of CFAC member wishing to attend, list of other conferences you have attended on behalf of CFAC.
- Please continue to share information about events/conferences others may be interested in.

State Updates
Roanna Newton shared the Consumer Empowerment Newsletter with the group. A copy will be sent out via email to the group. The State encourages local CFAC’s to be more involved in decisions being made at a local level.

MCO Update:
- There are discussions about the proposed MCO mergers happening. By the end of October a map of proposed changes will be shared.
- There are too many providers; Alliance BHC will be working to “right size” its provider network.
- An RFP will be issued in the next few weeks. Alliance BHC would like CFAC members on the review committee. Doug will share this request with the entire CFAC membership.
- Local Business Plan: the ABHC CFAC unanimously voted to approve the plan with the written recommendations that were submitted.
- There will be two IDD Community forums: October 15 from 9:00-12:00 and from 1:00-4:00. See provider newsletter for more information.
- There are more forums being planned.
<table>
<thead>
<tr>
<th>Announcements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Marc Jacques has been named the new director of the Mental Health Consumers Association. Please go on face book and like their new page.</td>
</tr>
<tr>
<td>• J Ruth is hosting graduation from their program on October 25, 2013 at the Ivey Community Center.</td>
</tr>
</tbody>
</table>

**Next meeting**
Durham Subcommittee: November 4, 2013 at 5:30  Trosa on James St, Durham, NC
Wake Subcommittee: at 5:30  500 Falls of the Neuse Rd, Raleigh, NC
Cumberland Subcommittee:
ABHC/CFAC: December 2, 2013 at 5:30  4600 Emperor Blvd, Durham
ITEM: Executive Committee Report

DATE OF BOARD MEETING: November 7, 2013

REQUEST FOR AREA BOARD ACTION:
The Executive Committee sets the agenda for Area Board meetings and acts in lieu of the Area Board between meetings. Actions by the Executive Committee are reported to the full Area Board at the next scheduled meeting. Attached are the minutes from the September 10, 2013 meeting.

CEO RECOMMENDATION:
Accept this report.

RESOURCE PERSON(S):
Ellen Holliman
## Executive Committee Minutes

**Date:** October 8, 2013  
**Present:** Lascel Webley, Bill Stanford, Nancy Henley, Jim Edgerton  
**Staff:** Ellen Holliman, Rob Robinson

<table>
<thead>
<tr>
<th>Topic:</th>
<th>Data:</th>
<th>Action Required:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agenda Items:</td>
<td>Meeting was called to order by Lascel Webley.</td>
<td></td>
</tr>
<tr>
<td>Approve Minutes:</td>
<td>Bill Stanford made the motion to approve the September 10, 2013 minutes. Jim Edgerton seconded. Motion passed.</td>
<td></td>
</tr>
<tr>
<td>County Commissioner Advisory Committee</td>
<td>Ms. Holliman shared with the Executive Committee that SB 208 requires the establishment of a County Commissioner Advisory Committee. The Committee suggested that we ask Commissioner Edge and the NC County Commissioner Association for ideas on how to establish the committee in our 4 county area.</td>
<td>Ms. Holliman will follow-up with Commissioner Edge and the NC County Commissioner Assoc.</td>
</tr>
<tr>
<td>Wake County Board of Commissioner meeting</td>
<td>Ms. Holliman reported that she is on the work session agenda for October 21 to give an update on the MCO activities including divestiture, financial and to present the Local Business Plan as required by general statues. The commissioners will be asked to approve the Local Business Plan and the Alliance-Cumberland amendment.</td>
<td>Chairman Webley requested information on all the items that have to be approved by county commissioners. Ms. Holliman will follow-up.</td>
</tr>
<tr>
<td>November 7, 2013 Board agenda</td>
<td>The Executive Committee approved the November 7, 2013 agenda to include Oath of office for the Cumberland County board members; committee reports; Updates on the Secretary’s Medicaid reform, and the provider RFP process. Presentations will be made for URAC, and the overview of the inpatient and crisis services.</td>
<td></td>
</tr>
<tr>
<td>Interview of Wake County applicants</td>
<td>The board members of the expanded Executive Committee interviewed the following people who applied for the two vacant Wake County Board seats: Adele Foschia and Paige Pavlik.</td>
<td>The members present recommended Adele Foschia to be appointed by the Wake County BOC.</td>
</tr>
</tbody>
</table>
ITEM: Policy Committee Minutes

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
The Committee’s functions include:
1. Developing, reviewing and revising Area Board By-Laws and Policies that Govern the LME/MCO.
2. Recommending policies to the full Area Board to include all functions and lines of business of the LME/MCO.
3. Reviewing Area Board Policies at least annually, within 12 months of policies’ approval. The Committee reviews a number of Policies each quarter in order to meet the annual review requirement.
4. Revising Policies to ensure compliance with applicable law, federal and state statutes, administrative rules, state policies, contractual agreements and accreditation standards.
5. Ensure that a master Policy Index is kept current indicating policy names, original approval dates, all revision dates, all review dates, accreditation standards, and references to applicable law, federal and state rules and regulations and state policies.

REQUEST FOR BOARD ACTION:
Review draft Board Policy Committee minutes: 11/14/2013

CEO RECOMMENDATION:
Review minutes.

RESOURCE PERSON(S):
Jim Edgerton, Chair, Policy Committee
Monica Portugal, Corporate Compliance Officer
<table>
<thead>
<tr>
<th>Committee name:</th>
<th>Board Policy Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting date:</td>
<td>11/14/13</td>
</tr>
<tr>
<td>Report submitted by:</td>
<td>Jim Edgerton, Chair</td>
</tr>
<tr>
<td>Members:</td>
<td>Lascel Webley Jr., Member, Board Policy Committee</td>
</tr>
<tr>
<td></td>
<td>Cynthia Benanay, Member, Board Policy Committee</td>
</tr>
<tr>
<td></td>
<td>Jim Edgerton, Chair, Board Policy Committee</td>
</tr>
<tr>
<td>Members Present:</td>
<td>Lascel Webley Jr., Cynthia Benanay, Jim Edgerton</td>
</tr>
<tr>
<td>Members Absent:</td>
<td>N/A</td>
</tr>
<tr>
<td>Staff:</td>
<td>Ellen Holliman (CEO), Monica Portugal (Corporate Compliance Officer, Staff Support, Board Policy Committee)</td>
</tr>
<tr>
<td>Minutes from (Date)</td>
<td>8/15/2013 minutes reviewed. Decision was made to make the minutes a report since the committee did not meet quorum.</td>
</tr>
<tr>
<td>Follow up Items</td>
<td>N/A</td>
</tr>
<tr>
<td>Announcements</td>
<td>None</td>
</tr>
<tr>
<td>Documents Provided</td>
<td>Agenda; Policies for annual review: Business Operations, Compliance, IT; Policies for revision: Guidelines for Public Comment at Area Board Meetings, Area Board Conflict of Interest; By-Laws</td>
</tr>
</tbody>
</table>

### Annual Review: Governance, General Administrative

**Brief description of Topic**
The Committee reviewed all Business Operations, Compliance, and IT Policies.

**Suggestions/Comments**

A. The following Policies were reviewed without revisions:
1. Compliance with local Government Budget and Fiscal Control Act
2. Risk Management
3. Contracting with New and Existing Providers
4. Travel and Employee Expense Reimbursement
5. Cellular Communications Devices
6. Paybacks
7. Management of Financial Risk
8. Fund Balance
9. Financial Stability
10. Accounting Manual Accounting by Funding Source
<table>
<thead>
<tr>
<th>B. The following Policies were reviewed and suggested revisions were made:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Records Retention</td>
</tr>
</tbody>
</table>

**Non-Report Topic**  
**Policies for Revisions**  
**Brief description of Topic**  
The Committee reviewed two Policies, one submitted by the CEO and one per request from the Board at the November Board meeting, including revisions for review and consideration by the Committee.

**Suggestions/Comments**  
A. Revisions for review:  
1. Area Board Conflict of Interest Policy  
2. Guidelines for Public Comment at Area Board Meetings  
Committee reviewed suggested revisions and made some changes after some discussion around each Policy.

**Next steps:**  
Ms. Portugal will send by email a final draft of the Guidelines for Public Comment at Area Board Meetings to the Board Policy Committee prior to Area Board Packet submission. Both Policies will go to the December Board meeting as an agenda item for discussion.

**Non-Report Topic**  
**By-Laws**  
**Brief description of Topic**  
Ms. Holliman presented suggested revisions to the By-Laws.

**Suggestions/Comments**  
Committee reviewed revisions and made some suggestions.
Next steps: Ms. Holliman will add revisions per the Committee’s discussion and suggestions and will send to the Committee via email. The Committee will review updated draft before submitting to the full Area Board.

<table>
<thead>
<tr>
<th>Non-Report Topic</th>
<th>Meeting adjourned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brief description of Topic</td>
<td></td>
</tr>
<tr>
<td>Suggestions/Comments</td>
<td></td>
</tr>
<tr>
<td>Next steps:</td>
<td></td>
</tr>
</tbody>
</table>

Next meeting will be February 13, 2014 at 4:00 pm to 5:30 pm in room 237.
I. PURPOSE

The purpose of this policy is to provide a consistent standard for employee expense reimbursement for authorized travel for the purpose of conducting business or obtaining training. It is the intent of Alliance Behavioral Healthcare that employees neither gain nor lose personal funds when engaging in Agency authorized travel and/or training. It is also the intent of Alliance Behavioral Healthcare that all employee expense reimbursements be approved, necessary and reasonable.

II. POLICY

Alliance Behavioral Healthcare is committed to developing an educated and skilled workforce and shall provide funding for employee training and travel whenever possible. Funding for this purpose may be established annually during the annual budget process. Available training funds may be used for training required for obtaining or maintaining professional licensure or to obtain necessary skills required for a position when approved by the Area Director. Mileage is reimbursed for travel that is a part of an employee’s job responsibilities or for approved travel for training purposes.

III. ALLOWABLE EXPENSES

Reimbursement for the following travel and training related expenses, both within and outside the catchment area, are allowable under this policy:
A. Mileage in accordance with current IRS regulations.
B. Meals based on the Board’s annually established per diem rate.
C. Hotel charges incurred, subject to the limitations imposed by the board’s annually established rate.
D. Ancillary travel costs, e.g., tips, parking, vehicle rental, etc. as set by the Area Director.
E. Tuition/Registration as set by the Area Director.

Any exceptions to the established rates shall require the prior approval of the Area Director.

IV. PROCEDURES

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose of this policy is to ensure that Alliance Behavioral Healthcare follows established procedures for loading and maintaining service codes in AlphaMCS.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare that all service codes and descriptions are loaded and maintained in the AlphaMCS system by a qualified user. Consistent procedures shall be utilized to ensure that the quality and integrity of data in the system is maintained.

III. PROCEDURES

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose is for Alliance Behavioral Healthcare to develop and implement a risk management plan that will enable the organization to successfully manage risk to the organization and its customers.

II. DEFINITIONS

Risk: The potential of harm to the organization, customers or key stakeholders.
Risk Assessment: An evaluation of the nature and magnitude of risk to the organization. The evaluation is based upon known or potential threats, as well as the likelihood of the threats being realized and the potential impact to the organization and to its customers.
Risk Management: The process of evaluating and responding to risks for the purpose of reducing those risks to acceptable levels. Risk management is inclusive of the risk assessment process, and uses the results of risk assessments to make decisions on the acceptance of risks or on taking action to reduce those risks.

III. POLICY STATEMENT

Alliance Behavioral Healthcare shall have a comprehensive risk management plan to identify, analyze and manage threats to the organization’s ability to operate, including changes in service or business environment, as well as threats to employees, property, income, and community standing. For each risk identified, Alliance will develop a plan to address the risk and avoid exposure, or to manage and minimize the severity of the loss. Annually, the Area Board shall review and approve the risk management plan.
I. PURPOSE

The purpose of this policy is to establish a process for organization purchases.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to ensure the cost effective, efficient and timely procurement of the necessary goods and services in compliance with applicable State and Federal laws and regulations and local ordinances.

III. PROCEDURES

The Area Director will develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to establish guidelines for collection of provider paybacks in accordance with standards set forth in Alliance’s agreements with the NC Department of Health and Human Services and as specified in the NC Department of Health and Human Services standardized provider agreements.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to ensure that providers repay funds identified as requiring recoupment according to the funding source’s policy (Examples of funding source include: Medicaid, IPRS, Federal Block Grants, County funds). Alliance Behavioral Healthcare shall comply with all established regulatory and statutory requirements of the funding agencies and shall comply with the provisions of the standardized provider contracts.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to ensure that Alliance Behavioral Healthcare will identify, reduce, and eliminate risk and to safeguard the financial integrity of the organization.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to ensure that service and administrative costs not exceed the level of funding received. Risk indicators, which are overall factors of how the organization is operating from a financial perspective, shall be monitored. Financial results shall be reviewed monthly for possible savings or losses of revenues versus expenditures. Alliance Behavioral Healthcare shall emphasize capturing, analyzing and reporting accurate data as the foundation of financial risk management.

III. PROCEDURES

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose of this policy is to provide guidelines and requirements for Alliance Behavioral Healthcare employees regarding legal proceedings involving service records.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to comply with any valid requests for service records issued by a court of competent jurisdiction in accordance with state and federal regulations.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
AREA BOARD
POLICIES AND PROCEDURES

Subject: IT System Backup
Lines of Business: Information Technology
Responsibility: Area Board
Area Director

Number: IT-5
Urac: Core, v. 3.0, Standards 13-16
Reference: DHHS Contracts, 45

Approval Date: 11/1/2012
Latest Revision Date: 5/28/2013
Latest Review Date: 5/28/2013

Approval Authority: Chairperson, Area Board

I. Purpose

The purpose of this policy is to ensure that routine backup of information system servers occur in order to protect information required to continue business operations.

II. Definitions

Backup: A term used in the Information Technology environment to describe a process in which information is copied to a separate media. This process is used to ensure availability of information in the event that the original information is lost or compromised.

III. Policy Statement

It is the policy of Alliance Behavioral Healthcare to subscribe to a Data Backup Plan to ensure availability of information required to continue business operations. The Data Backup Plan shall be in compliance with the Department of Health and Human Services (DHHS) and the Health Insurance Portability and Accountability Act (HIPAA) security and privacy requirements in order to protect the security of health information and the integrity of Alliance Behavioral Healthcare.

IV. Procedures

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose of this policy is to outline the scope, responsibilities, and activities conducted by Alliance Behavioral Healthcare to prevent, detect, and resolve instances of fraud and abuse.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to comply with all local, state, and federal laws governing its operations. Alliance Behavioral Healthcare shall promote efforts to guard against fraud and abuse through prevention, detection and enforcement activities.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to outline the acceptable use of computer and information technology resources provided by Alliance Behavioral Healthcare to employees, independent contractors, agents, authorized guests and authorized affiliates. Inappropriate use exposes Alliance Behavioral Healthcare to risks, including breach of personal computer security, exposure of restricted data, compromise of network systems/services, detriments to technology performance, and legal liability. Information Technology Services (hereinafter "IT") is committed to protecting employees, affiliates, and the Area Authority from illegal or damaging actions by individuals, either knowingly or unknowingly.

This policy applies to all equipment that is owned or leased by Alliance Behavioral Healthcare.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare that all computer resources that are the property of Alliance Behavioral Healthcare can be used only for legitimate business purposes. Users are permitted access to the computer resources to assist them in performance of their jobs. Use of the computer system is a privilege that may be revoked at any time. It is every employee's duty to use the Area Authority’s computer resources responsibly, professionally, ethically, and lawfully. Any abuse of this policy shall be grounds for disciplinary action which may include termination of employment.

All data created or received for work purposes and contained in the Area Authority’s electronic files, servers, or e-mail depositories are public records. Public Records are available to the public unless specifically prohibited from general viewing by law or contract. All public records are to be maintained and disposed of according to state approved records retention and disposition schedules.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to ensure Alliance Behavioral Healthcare has a fund balance that contributes to the Organization’s fiscal health and is adequate to meet Alliance Behavioral Healthcare’s needs and challenges.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to have the Finance Committee of the Area Board review the fund balance on a quarterly basis while in the first year of operations and annually thereafter. Fund balance designations shall be appropriated at year end while adhering to G.S. 159-8 (a).

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to ensure the financial stability of Alliance Behavioral Healthcare.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to comply with all state and federal laws regarding the financial management of the organization. The Area Board of Alliance Behavioral Healthcare shall be responsible for the financial management and accountability for the use of State and local funds and information management for the delivery of publicly funded services. The Area Board shall establish a Finance Committee per G.S. 122C-119(d). The Finance Committee responsibilities shall include reviewing financial statements and making recommendations on financial matters to the Area Board.

III. PROCEDURES

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose of this policy is to ensure that any financial incentives provided by Alliance Behavioral Healthcare promote the provision of quality health care services.

II. DEFINITIONS

Delegated Entity: An entity that performs delegated activities on behalf of Alliance Behavioral Healthcare

III. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to not allow the payment of bonuses or other financial incentives to staff, contractors, consultants, or delegated entity based directly on consumer utilization of health care services.

IV. PROCEDURES

The Area Director shall develop procedures to implement this policy.

---

<table>
<thead>
<tr>
<th>SUBJECT: Financial Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>LINES OF BUSINESS: All, Compliance</td>
</tr>
<tr>
<td>NUMBER: C-3</td>
</tr>
<tr>
<td>URAC: CORE, v. 3.0, Standards 4, 27, &amp; 33</td>
</tr>
<tr>
<td>REFERENCE: 42 CFR 438, DMA Contract</td>
</tr>
<tr>
<td>PAGE: 1</td>
</tr>
<tr>
<td>RESPONSIBILITY: Area Board, Area Director</td>
</tr>
<tr>
<td>APPROVAL DATE: 8/20/2012</td>
</tr>
<tr>
<td>LATEST REVISION DATE:</td>
</tr>
<tr>
<td>LATEST REVIEW DATE: 5/28/2013</td>
</tr>
<tr>
<td>APPROVAL AUTHORITY: Chairperson, Area Board</td>
</tr>
</tbody>
</table>
I. PURPOSE

The purpose of this policy is to establish guidelines and procedures to prevent conflict of interest on the part of employees of Alliance Behavioral Healthcare. The policy is intended to supplement, but not replace any applicable Federal or state laws governing conflict of interest.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare that employees shall disclose any actual or potential conflict of interest.

Each employee shall fulfill his or her responsibilities consistent with all Federal and State laws and regulations, and Alliance Behavioral Healthcare policies regarding avoidance of conflict of interest. This includes the avoidance of the perception of conflict of interest.

North Carolina General Statutes 126-4 prohibits an employee from holding any office or have other employment which may conflict with employment in an agency subject to the State Personnel Act.

Alliance employees shall not derive a direct benefit from a provider or contractor as covered by NC G.S. 14-234. It is the responsibility of each employee to reveal a conflict or the appearance of a conflict of interest. Not reporting a conflict of interest constitutes unacceptable personal conduct which may result in disciplinary action up to and including dismissal.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

Alliance Behavioral Healthcare is committed to providing high quality services that comply with the regulations and laws that are applicable to behavioral healthcare and Managed Care Organizations. To support this commitment, Alliance shall develop a Code of Ethics and Conduct to provide guidance for staff on employee and organizational responsibilities. The code is not intended to be an exhaustive list of behavioral expectations. In areas the code does not cover, staff has a duty to determine how they should behave by consulting the regulations, speaking to a supervisor or contacting the Compliance Officer.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to develop a Code of Ethics and Conduct to provide staff with guidance on requirements for conduct as established by Alliance and applicable laws and standards. Principles within the Code of Ethics and Conduct shall be grounded in Alliance policy.

All staff shall uphold Alliance Behavioral Healthcare’s adopted Code of Ethics and Conduct. Additionally all staff is required to report or seek guidance on any activity they believe is unethical or violates the law or any federal or state healthcare requirement. Individuals do not have to be certain that the violation occurred in order to report it. Staff seeking guidance or reporting violations may do so without fear of retaliation and their confidentiality will be protected to the fullest extent possible.

The Code of Ethics and Conduct shall be reviewed at least annually and the Area Board shall approve any modifications to the content of the code.

III. PROCEDURES

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose of this policy is to ensure that Alliance Behavioral Healthcare follows specific procedures related to loading, maintaining, and reconciling eligibility and enrollment data.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to use accurate and current data to ensure compliance with federal and state laws and contractual requirements throughout its operations. Alliance shall use the Global Eligibility File (GEF) received daily from Department of Health and Human Services (DHHS) to ensure that recipients’ eligibility and enrollment status is correct. Alliance Behavioral Healthcare shall use the GEF, HIPAA 820 and HIPAA 834 transactions for reconciliation monthly.

III. PROCEDURES

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose of this policy is to ensure that Alliance Behavioral Healthcare has consistent and accurate cyclical financial reporting.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to reconcile and close the financial records on a monthly and annual basis in order to prepare accurate and timely financial statements. Financial statements shall be prepared according to generally accepted accounting principles and in accordance with contractual requirements.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is for Alliance Behavioral Healthcare to develop and implement a compliance plan and program. The program shall be designed to establish an organizational culture that promotes prevention, detection and resolution of instances of conduct that do not conform to federal and state law, and federal, state and private payer health care program requirements, as well as Alliance Behavioral Healthcare’s ethical and operational policies.

II. POLICY STATEMENT

Alliance Behavioral Healthcare is committed to the development of an organizational culture where services are provided and business is conducted in a legal and ethical manner. Alliance Behavioral Healthcare also encourages employee and provider participation in achieving a culture of compliance through training, suggestions for improvement, questions, and reporting of violations without any fear of retaliation. Each report or question offers an opportunity to contribute positively to the quality of services at Alliance Behavioral Healthcare. Ethical behavior and compliance with all pertinent laws, rules and other requirements are the responsibility of all employees and provider agencies.

III. PROCEDURES

Annually, the Area Director shall present the Corporate Compliance Plan to the Board for approval.
I. PURPOSE

The purpose of this policy is to establish guidelines for coordination of benefits (COB) to ensure that public funds are the payor of last resort.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to establish procedures to ensure that public funds are the payor of last resort. Alliance shall develop procedures to ensure that all third party coverage will be identified and that claims submitted to Alliance will include the net remaining amount to be paid.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to provide a uniform and consistent approach for establishing contracts with potential, new and current providers, their agents or designees and adding new services to existing provider contracts.

II. DEFINITIONS

Request for Proposal (RFP): used to communicate requirements to prospective contractors and to solicit proposals for products and services. The proposals are then evaluated according to various selection criteria, which may include many factors including price.

Request for Information (RFI): a standard business process which purpose is to collect written information about the capabilities of various vendors. Normally it follows a format that can be used for comparative purposes.

Request for Qualifications (RFQ): a procurement tool routinely used by state and local governments and the private sector to select partners in major systems acquisitions. This approach differs from the traditional request for proposals approach in that it places greater emphasis on the actual qualifications and track record of the potential contractor rather than how well the potential contractor responds to detailed project specifications and requirements.

III. POLICY

It is the policy of Alliance Behavioral Healthcare to contract with agencies and other organizations in a fair and consistent manner to provide needed mental health, intellectual/developmental disabilities and substance abuse services. In contracting, Alliance Behavioral Healthcare shall give primary consideration to quality of care and, as appropriate, maintenance of existing care relationships.

Alliance Behavioral Healthcare shall offer state and county contracts only to providers that take part in an official RFP/RFI/RFQ process. However, by exception, other methods for selecting providers may be employed. These other methods for selecting/contracting with providers may include but are not limited to:

i. Competitive procurement
ii. Legal notice
iii. Procurement to obtain best prices without selective contracting
iv. Non-competitive solicitation and/or selection of providers

An exception to this policy can be made:

i. When a critical need or emergency has been identified
ii. When adding a service(s) that is a natural extension of existing services in the provider’s contract
iii. When previous attempts to secure services have not been effective.

All exceptions shall be approved by the Area Director with notification to the Area Board.

The Finance Committee shall have authority to initiate the process for developing new or expanded services whether through RFP, RFI, RFQ or other methods allowed by this policy. The Area board shall have final approval over the awarding of any contracts for the provision of services.

**IV. PROCEDURES**

The Area Director shall develop procedures to implement the provisions of this policy.
I. PURPOSE

The purpose of this policy is to define a process by which the annual budget shall be prepared in accordance with the General Statutes of the State of North Carolina section 159-8(a) that requires an annual balanced budget ordinance.

II. DEFINITIONS

The Local Government Budget and Fiscal Control Act is the legal framework in which all local government agencies must conduct their budgetary process.

III. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to adhere to all applicable provisions in NC G.S. Chapter 159- Local Government Finance. The Board shall adopt procedures that ensure the financial stability of the Area Authority.

A. Provisions: Following are some of the relevant provisions in NC G.S. 159:

1. 159-8(b), the budget shall cover a fiscal year beginning July 1 and ending June 30.
2. 159-9, the board shall appoint a Budget Officer.
3. 159-10, all department requests for the following year shall be submitted to the Budget Officer. The Budget Officer shall create a mechanism for Department Head submissions and prepare summarized information for the budget proposal.
4. 159-11(b), the budget and budget message shall be submitted to the governing board not later than June 1 with approval by June 30. The budget message shall be concise and explain the goals, activities of the budget, changes from the previous year, and any major changes in fiscal policy.
5. 159-12(a), the Budget Officer shall submit a copy of the budget to the office of the clerk of Cumberland, Durham, Johnston and Wake Counties. It will remain available until the budget ordinance is adopted. The budget shall be made available to news media and be available on all websites affiliated with Alliance Behavioral Health including the Cumberland and Johnston Area Authorities.
6. 159-12(b), the board shall hold a public hearing to receive input on the budget. The board shall hold an annual budget retreat in which the date of the public hearing will be established.
7. 159-13(a), the board shall adopt a budget ordinance not later than July 1.
8. 159-23, the board shall appoint a Finance Officer.
9. 159-31, the board shall select the depository.
I. PURPOSE

The purpose of this policy is to ensure adherence with claims adjudication contractual requirements.

II. POLICY STATEMENT

Alliance Behavioral Healthcare shall establish general guidelines for the timely and accurate processing of claims submitted by providers for payment. Procedures shall ensure that Prompt Pay Guidelines will be met and that denied claims information will be returned to the Providers in a timely manner according to Department of Health and Human Services contractual requirements.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to authorize the Area Director to issue cellular telephone and related devices to Alliance Behavioral Healthcare employees or to provide reimbursement to employees for the use of such devices.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to provide staff with the tools/equipment necessary for the efficient operation of the Area Authority’s affairs. In recognition of the need for timely communication, Alliance Behavioral Healthcare may provide reimbursement to authorized employees for the use of personal cell phones for business purposes, including phone calls, emails, personal data assistant, etc. Alliance may also issue agency owned cellular phones to employees. Any abuse of this policy shall be grounds for disciplinary action which may include termination of employment.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy. Those procedures shall address at a minimum:
A. Positions that qualify for cellular phone support
B. Reimbursement rates
C. Eligibility criteria to receive reimbursement
D. Criteria for issuance of an agency owned cellular device
I. PURPOSE

The purpose of this policy is to ensure that an up to date accounting manual is maintained by the Finance Department.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to maintain an up to date accounting manual that documents finance related processes. The accounting manual shall be developed and implemented to ensure that the department has adequate internal controls and procedures consistent with generally accepted accounting principles, in accordance with contractual requirements and to ensure the department is operated efficiently. The accounting manual shall be reviewed and revised as necessary and at a minimum annually.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
I. PURPOSE

The purpose of this policy is to ensure proper and adequate recording of financial transactions.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to record all revenues and service expenses in the general ledger by funding source. Administrative expenses will be allocated based on the assigned cost allocation. This shall be done to ensure accurate accountability to all reporting entities and to ensure sound financial tracking and monitoring in accordance with contractual requirements.

III. PROCEDURES

The Area Director shall develop procedures to implement this policy.
Alliance Behavioral Healthcare
Area Board Meeting
Thursday, November 7, 2013
4:00pm– 6:00 pm

DRAFT MINUTES

PLACE: Alliance Behavioral Healthcare, 4600 Emperor Blvd. Room 105, Durham, NC 27703.

MEMBERS PRESENT: Dr. George Corvin, Ellen Holliman, Phillip Golden, Dr. Nancy Henley, George Quick, William Stanford, John Griffin, Vicki Shore, Cynthia Binaynay, and Lascel Webley, Jr., Chairman, Scott Taylor, Kenneth Edge, Lodies Gloston, Christopher Bostock, Ann Akland, Adele Foschia, Amelia Thorpe, and Michael Page.

MEMBERS ABSENT: Jim Edgerton

GUESTS PRESENT: Mike Woodard from the North Carolina Senate, Yvonne French from DMH/DD/SAS, Diane Wydo of Fellowship Health Resources, Denise Foreman from Wake County, Dan Shaw-Durham CFAC, Michael Woodard from Carolina Outreach, and Frederick Aikers from Heartfelt Alternatives.

STAFF PRESENT: Rob Robinson, Doug Fuller, Doug Wright, Monica Portugal, James Osborn, Veronica Ingram, Sara Pacholke, Hank Debnam, Suzanne Goerger, Andrea Kinnaugh, Sean Schreiber, Tracy Hayes, Tammy Ramirez, Sara Wilson, Janis Nutt, Beth Melcher, Tina Howard, Ann Oshel, Susan Knox, and Carlyle Johnson.

1. CALL TO ORDER:
Chairman Lascel Webley, Jr. called the meeting to order at 4:03 pm.

2. ANNOUNCEMENTS
   A. Ellen Holliman, Chief Financial Officer, introduced Veronica Ingram, a new Alliance staff member.
   B. Chairmen Webley joined Ellen Holliman offering a fond farewell to Tracy Hayes upon her resignation as General Counsel.
   C. Ellen Holliman invited the Board to meet with Senior Management Staff on Thursday, November 21, 2013. Interested Board Members should RSVP to Veronica Ingram.
   D. Chairman Webley reminded the Board that the NC Council Pinehurst Conference will be held on December 11, 12, & 13, 2013. Interested Board Members should pass their information to Veronica Ingram.
3. **OATH OF OFFICE FOR NEW BOARD MEMBERS**
   Senator Mike Woodard administered the Oath of Office to the new Wake and Cumberland County members of the Board including Kenneth Edge, Chris Bostock, Adele Foschia, and Lodies Gloston.

4. **AGENDA ADJUSTMENTS**
   None

5. **PUBLIC COMMENT**
   Mary Short, representing herself, voiced her concerns regarding the Relative as a Provider policy posted on the Alliance Website. She implored the Board to pay careful attention to this policy and consumer rights to file for administrative hearings.

   Joe Dziobek, Chief Executive Officer for Fellowship Health Resources, along with Diane Wydo, Regional Director for NC, and Pam Daisy gave a brief overview of their agency. They provide mental health and substance use services; although the agency is in a transitional state, they wanted to assure everyone continues expecting consistent great care. Overall, they expressed gratitude for the relationships forged with Alliance and look forward to a bright future.

   Mildred Miller, representing herself, stated she was one of those affected by the Relative as a Provider policy; she has gone to an OAH hearing. She expressed detailed concerns for her daughter who is a consumer in the Alliance catchment area. Ms. Miller asked the Board to post the best practices model on the Alliance website.

6. **FINANCE COMMITTEE REPORT**
   The Finance Committee’s function is to review financial statements and recommend policies/practices on fiscal matters to the Board. The Finance Committee meets monthly at 3:00 pm prior to the regular Board meeting. Draft minutes and financial information from the October 3, 2013 meeting are attached.

   **BOARD ACTION**
   The Board accepts the Finance Committee Minutes as presented.

7. **COMMITTEE REPORTS**
   A. Consumer and Family Advisory Committee Report
   B. Executive Committee Report

   **BOARD ACTION**
   The Consumer and Family Advisory Committee Report & Executive Committee Report were accepted as presented.

8. **CONSENT AGENDA**
   A. Draft Board minutes from the October 3, 2013 Board meeting
**BOARD ACTION**  
The Board approved the Consent Agenda as presented.

9. **UPDATE ON THE SECRETARY’S MEDICAID REFORM PLAN**  
   Ellen Holliman, CEO, presented an update on the DHHS Secretary’s Medicaid reform plan.

**BOARD ACTION**  
The Board accepted the report as presented.

10. **RFP UPDATE**  
   Beth Melcher, Chief of Network Development and Evaluation, presented an update on the RFPs for Intensive In-Home, Community Support Team, SAIOP and MH/SA Supported Employment.

**BOARD ACTION**  
The Board accepted the report as presented.

11. **URAC UPDATE**  
   Beth Melcher, Chief of Network Development and Evaluation presented an update on Alliance preparation for the URAC on-site accreditation visit scheduled for December 10 & 11.

**BOARD ACTION**  
The Board accepted the report as presented.

12. **YOUTH OPPORTUNITY INITIATIVE REPORT**  
   Ann Oshel, Director of Community Relations, gave a report on the progress of the Youth Opportunity Initiative.

**BOARD ACTION**  
The Board accepted the report as presented.

13. **CRISIS SERVICES PRESENTATION**  
   James Osborn, Crisis and Incarcerations Manager, gave a presentation on the continuum of crisis services available in the Alliance region.
BOARD ACTION
The Board accepted the report as presented.

14. CHAIRMAN'S REPORT
Chairman Webley asked the Board if Monica Portugal could finished her Policy Training presentation.
Chairman Webley encouraged all Board members to attend the Executive Committee Meeting on Tuesday, November 12, 2013 at 8:15am.

15. ADJOURNMENT
With all business being completed the meeting adjourned at 5:43 pm.

Next Board Meeting
Thursday, December 5, 2013
3:00 – 6:00

Respectfully submitted:

[Signature]
Ellen S. Holliman, Chief Executive Officer

Date Approved
ITEM: Annual Review of Board Policies: Business Operations, Compliance, IT

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
Per Alliance Behavioral Healthcare Area Board Policy “Development of Policies and Procedures”, the Board is to review all policies annually. The Board Policy Committee reviews a number of Policies each quarter in order to meet this requirement. Below is a list of policies reviewed, divided into two categories – policies reviewed which require no revisions and policies reviewed which require minor revisions but without changing the content of the policies.

Policies reviewed and ready for Board approval without revisions:
1. Compliance with local Government Budget and Fiscal Control Act
2. Risk Management
3. Contracting with New and Existing Providers
4. Travel and Employee Expense Reimbursement
5. Cellular Communications Devices
6. Paybacks
7. Management of Financial Risk
8. Fund Balance
9. Financial Stability
10. Accounting Manual Accounting by Funding Source
11. Coordination of Benefits
12. Cyclical Financial Reporting
13. Claims Adjudication
14. Purchasing
15. Corporate Compliance Plan
16. Guarding against Fraud and Abuse
17. Financial Incentives
18. Employee Conflict of Interest
19. Employee Code of Ethics and Conduct
20. Legal Proceedings Involving Service Records
21. General Computer Use
22. Information Technology Business Continuity Plan
23. Service Codes in Alpha
24. Eligibility Load, Error Handling and Reconciliation
25. IT System Backup

Policies reviewed with minor revisions:
1. Records Retention

REQUEST FOR BOARD ACTION:
As part of the Annual Review process, approve the above policies for continued use.
**CEO RECOMMENDATION:**
Approve the reviewed policies for continued use.

**RESOURCE PERSON(S):**
Jim Edgerton, Chair, Policy Committee
Monica Portugal, Corporate Compliance Officer
I. PURPOSE

The purpose of this policy is to assure that any records generated by the Area Authority are maintained as required by State and Federal rules and regulation.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to maintain all program records and service records in accordance with North Carolina Division of Mental Health, Developmental Disabilities and Substance Abuse Services Records Retention and Disposition Schedule for State and Area Facilities, APSM 10-3 to include all subsequent revisions. In the event that the Alliance Behavioral Healthcare is notified of any pending legal action or action involving federal or state audit or investigation of the program, the records shall be maintained until the date such matter is resolved and formally concluded in accordance with applicable federal and state laws and regulations.

III. PROCEDURES

The Area Director shall develop procedures to implement the provision of this policy.
ITEM: RFP Update

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
On September 30, 2013 Alliance released Requests for Proposals (RFPs) for Community Support Team (CST), Intensive In-Home Services (IIH), Substance Abuse Intensive Outpatient Program (SAIOP), and MH/SA Supported Employment and Long-Term Vocational Supports. All current providers of Community Support Team (CST), Intensive In-Home (IIH), and Substance Abuse Intensive Outpatient Program (SAIOP) services with a credentialed site within the four counties were required to respond in order for Alliance to consider Medicaid contract renewal. Supported Employment for MH/SA populations is a new service supported by state funds. Any provider with a credentialed site in the Alliance catchment area was eligible to respond to this RFP.

Providers submitted 113 RFP responses by the deadline of 5:00pm on November 1st. Alliance staff have completed the initial review of RFP responses and have determined that 98 responses meet minimum review criteria. Selection Committees for each RFP are reviewing these responses and will be scheduling interviews in December with providers whose responses meet minimum desk review criteria.

Staff will update the board on the status of applications received and the timeline of the review process.

REQUEST FOR BOARD ACTION:
Accept the report.

CEO RECOMMENDATION:
Accept the report.

RESOURCE PERSON(S):
Beth Melcher, Carlyle Johnson
ITEM: Relative as Provider Presentation

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
This is a follow-up to two consumer’s family members who spoke about this process at the previous board meeting on 11/7/2013.

Alliance also posted a draft policy on Relatives and Legal Guardians as Direct Service Providers to the Alliance website on October 24, 2013 for review and comment from family members, Waiver participants, APAC and CFAC. A final version was to be posted November 15, 2013; however feedback has recently been received from CFAC and this is under review to make recommended changes.
http://www.alliancebhc.org/providers/relatives-and-legal-guardians-as-direct-service-providers

REQUEST FOR BOARD ACTION:
Accept the report.

CEO RECOMMENDATION:
Accept the report.

RESOURCE PERSON(S):
Sara Wilson, Doug Wright
Relative as Provider
NC Innovations Waiver
Presentation to Alliance Board of Directors
December 5, 2013
Background on the Policy

• CMS gives states the ability to choose whether relatives or legal guardians can provide services and under what conditions this may occur

• No federal or state entitlement that relatives or legal guardians must be employed
Background on the Policy

• North Carolina has chosen to allow relatives and legal guardians who live in the same home as the adult NC Innovations Waiver participant to provide services under specific conditions.
Definitions within the Policy

• Clinical Coverage Policy No: 8P defines **Relative** as individuals related by blood or marriage to the waiver participant

• The relative/legal guardian must live in the home of the waiver participant
Relative as Provider

• This policy applies to waiver participants ages 18 and older who live with a relative or legal guardian who is employed by a waiver provider agency.
Policy Exclusions

• The following are excluded from this policy:
  o Biological or adoptive parents of a minor child
  o Stepparents of a minor child
  o The spouse of a waiver participant
MCO requirements

• The PIHP must ensure compliance with the conditions of this policy through a prior approval process

• The PIHP must provide an increased level of monthly monitoring for services delivered by relatives/legal guardians
<table>
<thead>
<tr>
<th>Service Provision Under this Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• In-Home Skill Building</td>
</tr>
<tr>
<td>• In-home intensive supports</td>
</tr>
<tr>
<td>• Residential Supports*</td>
</tr>
<tr>
<td>• Personal Care</td>
</tr>
</tbody>
</table>

*exclusion*
Criteria for approval

Employment-based criteria must be met:

• No other non-relative staff is available to provide the service OR

• A qualified staff is only willing to provide the service at an extraordinarily higher cost than the fee or charge negotiated with the qualified family member or legal guardian
Relative as Provider

- DMA recommends that relatives residing in the home of the recipient provide no more than 40 hours per week of services to that recipient.

- This 40 hours applies to all relatives acting in a paid support capacity living in the home.
Relative as Provider

If more than 40 hours are being requested, the following criteria must be met:

• justification as to why other non-relative providers are not available AND

• assurances that the individual will not be isolated from their community
Relative as Provider

• The relative or legal guardian will not be reimbursed for any activity that they would ordinarily perform or are responsible to perform

• Provider agencies employing relatives/legal guardians as paid staff must monitor this person on-site a minimum of once per month
Provider Considerations

• Is this about the participant’s wishes, desires and needs or about supplementing a family member’s income?

• As an adult, is it appropriate or best for the individual to still have mom and dad with the participant throughout the day?
Provider Considerations

• If a family member supports an individual from birth onwards into adulthood, does the individual learn to adapt to different people and increase his/her flexibility and independence?
Provider Considerations

• If a participant with a disability is always supported by a family member, what happens when that caregiver becomes unable, through age, disability or death, to care for the participant? Who else knows how to interact with and care for the participant?
Provider Considerations

- Can a family member be a barrier to increased community integration or friendship development?
- Does having a family member as direct support staff expand the participant’s circle of support or risk shrinking it?
Denied Applications

• Participants or family members/guardians dissatisfied with a denial may file a grievance

• Alliance has put a transition period in place (up to 150 days) when an existing relative is denied as the paid provider
### Application Numbers

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviewed</td>
<td>165</td>
</tr>
<tr>
<td>Approved</td>
<td>119</td>
</tr>
<tr>
<td>Denied</td>
<td>46</td>
</tr>
<tr>
<td>Voluntarily Withdrawn</td>
<td>2</td>
</tr>
<tr>
<td>Approved after provider went through all extensions and resubmitted application</td>
<td>10</td>
</tr>
</tbody>
</table>
ITEM: Grievance and Concern orientation (Board Education)

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
Complaint review and resolution are part of the LME/MCO state required functions. The Quality Management Department (QM) will provide orientation to the grievance/concern process and timelines. The MCO’s standards for processing grievances/concerns are described in the Management of Grievances and Investigations Policy/Procedure and Management of Complaints and Clinical Concerns Procedure, and in the enrollee and provider services manuals/documents. The procedures for monitoring the processing of grievances are described below:
All grievances/concerns will be entered, routed, monitored, and reported from the MCO’s internal Alpha data system. Tracking numbers are assigned that are used to identify the grievance/concern in the database. QM Department staff research and resolve the grievances within the timelines mandated by DHHS or defined in procedure. Grievances/Concerns are reviewed on a monthly basis with a report to the Corporate Compliance Committee monthly and to the CQI Leadership Team, Human Rights Committee, and Global QMC quarterly. Weekly data are discussed with the MCO Senior Leadership Team.

REQUEST FOR AREA BOARD ACTION:
Accept the report.

CEO RECOMMENDATIONS:
Accept the report.

RESOURCE PERSON(S):
May Alexander, MS
ITEM: Review of Revised and Proposed Board Policies

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
Per Alliance Behavioral Healthcare Area Board Policy “Development of Policies and Procedures”, the Board is to review all policies annually. Alliance employees and the Board Policy Committee have recognized needed revisions to the below Area Board policies.

Area Board Conflict of Interest: Suggested changes would allow an exception to a prohibited conflict and thus allow a member of the Alliance Area Board who is a member of the Board of County Commissioners and due to his/her status as a County Commissioner is also a member of the Board of Directors of a nonprofit hospital. Such member would be allowed to serve on the Alliance Area Board but must recuse himself/herself from any Area Board votes that may impact the nonprofit hospital, and must likewise recuse himself/herself from any hospital Board votes that may impact Alliance.

Guidelines for Public Comment at Area Board Meetings: Proposed changes to strengthen the guidelines for public comment; make guidelines available to persons signing up for public comment, allow the Chair to request clarification from staff, prohibit persons from naming Alliance staff as part of public comment.

REQUEST FOR BOARD ACTION:
Review revisions for consideration.

CEO RECOMMENDATION:
Review revisions for consideration.

RESOURCE PERSON(S):
Jim Edgerton, Chair Policy Committee
Ellen Holliman, Area Director/CEO
I. PURPOSE

The purpose of this policy is to establish standards and guidelines to prevent conflict of interest on the part of members of the Alliance Behavioral Healthcare (“Alliance”) Area Board of Directors (hereinafter “Board” or “Area Board”) members. The policy is intended to supplement, but not replace any applicable federal or state laws, rules and regulations governing conflict of interest. This policy is also intended to meet the requirements of the Division of Medical Assistance regarding conflict of interest under the Medicaid 1915 (b)/(c) waiver.

II. POLICY STATEMENT

It is the policy of Alliance Behavioral Healthcare to ensure that none of its Board members have conflicts of interest with any of the provider agencies with which Alliance Behavioral Healthcare has a contractual or a consumer referral relationship.

Each Area Board member shall fulfill his or her responsibilities consistent with all Federal and State laws and regulations, Area Board and Area Authority policies, and Area Board By-Laws regarding avoidance of conflict of interest. This includes the avoidance of the perception of conflict of interest which might undermine the efforts of the Area Board to maintain public confidence and trust in the Area Authority.

III. DEFINITIONS

Provider agency: Agency, organization or individual that is contracted with Alliance to deliver publicly-funded mental health, intellectual/developmental disability, substance abuse or other provides treatment, habilitation, rehabilitation, educational, training and/or recovery related services to consumers.

Vendor: Company or other entity that provides goods and services needed to develop, maintain or operate the corporation.

IV. RESTRICTIONS

Certain activities are prohibited as conflicts of interest; specifically Area Board members are prohibited from the following:
A. Receiving reimbursement as consultant or employee from Alliance Behavioral Healthcare or being employed by Alliance Behavioral Healthcare during the time they serve as board member.

B. No member of the Area Board may be a ‘family member’, as defined in Section III-E of this policy, of any employee of Alliance Behavioral Healthcare.

C. Representing him or herself to be an independent agent of the Area Board representing any potential Area Board action or position.

D. Having a financial investment, an ownership interest (whether by stock ownership, partnership, or otherwise), board membership, or employment with any provider agencies with which the Area Board has a current contractual or referral relationship, except that a member a Board of County Commissioners who is also a member of the Board of Directors of any nonprofit hospital due to his/her status as a County Commissioner shall not be prohibited from serving on the Alliance Board even if the nonprofit hospital is contracted with Alliance. Any such member must recuse themselves from any Area Board votes that may impact the nonprofit hospital, and must likewise recuse themselves from any hospital Board votes that may impact Alliance.

1. A list of the provider agencies with which Alliance has contractual or referral relationships shall be available upon request and shall be provided to Board members annually when Board members complete updated disclosure statements.

E. Having a family member (who has a financial investment, an ownership interest whether by stock ownership, partnership, or otherwise), board membership, or employment with any provider agencies with which Alliance Behavioral Healthcare has a contractual or referral relationship.

For purposes of this policy, “family members” include:

1. The Board member’s spouse;
2. The Board member’s parents, children, and siblings;
3. The Board member’s stepparents, stepchildren, stepbrothers, and stepsisters;
4. The Board member’s father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, and sister-in-law;
5. The Board member’s grandparents and grandchildren;
6. A spouse of any of the Board member’s grandparents or grandchildren.

F. Personally having, or having a family member who has, any arrangement for the payment of any commissions, rewards, or any other financial or tangible consideration or benefit from any provider agencies with which Alliance Behavioral Healthcare has a current contractual or referral relationship.

G. Serving on the Consumer and Family Advisory Committee, unless as a designated liaison and reflected in the bylaws.

H. Having any interest in an Alliance Behavioral Healthcare vendor as follows:

1. The Board member is a director, officer, partner, or direct or indirect owner of the beneficial interest in more than 5% of the equity in the vendor.
2. The Board member has a family member who is a director, officer, partner, or direct or indirect owner of the beneficial interest in more than 5% of the equity in the vendor.
I. Personally having, or having a family member who has, any interest in any mortgage, deed of trust, note, or other financial interest in a vendor where the value of such interest equals more than 5% of the value of the assets of the vendor.

V. REQUIREMENTS

Certain actions are required on the part of Board members for effective implementation of this policy:

A. Board members must observe the highest moral and ethical standards in any dealings in which they represent the Area Board.

B. Board members must disclose a conflict or the appearance of a conflict of interest and depending on the circumstances, may be prohibited from serving or restricted in voting based on the disclosure.

C. All Board members are required to update the information on the disclosure form when (1) a Board member or family member invests in or becomes employed by a provider agency with whom Alliance Behavioral Healthcare has a contractual or referral relationship or (2) the Area Board begins a contractual or referral relationship with new provider(s) with whom the Board member may have a conflict of interest.

D. Board members who are aware of any violations by any board members of this policy are required to report them to the Area Board Chair. The Board Chair shall notify the Area Director of the reported violation.

VI. CONFLICT OF INTEREST DISCLOSURE

The following actions may be required as a result of a disclosure:

A. If a Board member has an interest that violates Part IV D of this policy, the Board member may be required to resign from the Board.

B. If a Board member (or Board member’s Family Member) has an interest that is reportable under Part IV H of this policy, the board will review the situation and determine what steps, if any, need to be taken to avoid conflict of interest. Such steps may include, for example, prohibiting the board member from participating in any decisions regarding the use of, or negotiations with, the relevant vendor.

C. Board members who do not fully comply with the provisions in this policy may be subject to removal from the Board.

D. While conflict of interest issues are being reviewed, the Board member and subject of the potential conflict may be prohibited from serving or restricted from voting.

E. The Area Board shall make the final decision regarding the disposition of all conflict of interest issues.
# AREA BOARD
## POLICIES AND PROCEDURES

<table>
<thead>
<tr>
<th>SUBJECT:</th>
<th>Guidelines for Public Comment at Area Board Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>LINES OF BUSINESS:</td>
<td>Area Board</td>
</tr>
<tr>
<td>RESPONSIBILITY:</td>
<td>Area Board Area Director</td>
</tr>
</tbody>
</table>

| NUMBER: | G-11 |
| REFERENCE: | G.S. 122C-119 |

| APPROVAL DATE: | 5/15/2012 |
| LATEST REVISION DATE: | 5/28/2013 |

| APPROVAL AUTHORITY: | Chairperson, Area Board |

## I. PURPOSE

The purpose of this policy is to provide a framework to carry out the intent and desire of the Area Board to receive public comment at Board meetings.

## II. POLICY STATEMENT

The Area Board considers public comment, within specific guidelines, an important and integral component of fulfilling its planning and decision-making responsibilities.

## III. PROCEDURES

A. Persons must sign up for agenda items and identify any non-agenda items about they wish to speak as they sign up.

B. Persons may sign up prior to the meeting and during the meeting up to the point that the Board recognizes opportunity for public comment to occur.

C. Guidelines shall be posted outside the Board Room and shall be made available to persons signing up for public comment.

D. The public comment period shall be slotted into the early part of the Board’s agenda.

E. Area Board members may ask clarifying questions at any time during the public comment period and staff may be asked by the Board Chair to provide clarification.

F. No individual staff shall be named during public comment.

G. The discussion of all items is to occur only among Board members.

H. If an organization or group wishes to be heard, one person shall serve as their spokesperson.

I. Two (2) minutes per speaker is the established time limit (apart from any comment that is made in response to an Area Board member’s request for clarifying information). (Note: Any individuals/groups seeking formal inclusion on an Area Board agenda will be considered by the Executive Committee when it sets the agenda at its monthly meeting).

J. Yielding time to others is not permitted.
K. The Chairperson shall have the discretion to conduct the public comment session in a manner that maintains good order and decorum.

I-L. Board will acknowledge the comment but further discussion will be at the discretion of the Chair.
ITEM: Annual Compliance Report FY13

DATE OF BOARD MEETING: December 5, 2013

BACKGROUND:
Alliance is required to have a compliance program per Federal Regulations and contractual agreement with the Division of Medical Assistance. The US Sentencing Commission has released guidelines for organizations which state that an organization must have an effective compliance program with reasonable oversight by the governing board; understanding of the scope and operations of the compliance program. The Area Board approved Corporate Compliance Plan states that a report of compliance efforts will be submitted and presented annually to the Alliance Behavioral Healthcare Area Board.

REQUEST FOR BOARD ACTION:
Review Annual Compliance Plan FY13.

CEO RECOMMENDATION:
Review Annual Compliance Plan FY13.

RESOURCE PERSON(S):
Monica Portugal, Corporate Compliance Officer
Ellen Holliman, Chief Executive Officer
Compliance Report FY13

This Compliance Report summarizes fiscal year 2012-2013 (FY13) compliance activities and is intended to provide a broad description of accomplishments. The Compliance Department operates under an annual work plan, a living document which may be revised throughout the year depending on unforeseen events or situations that may be prioritized over the planned activities. All activities, whether planned or unforeseen, are intended to mitigate risk through prevention, detection and enforcement.

I. Summary of Accomplishments

Because Alliance Behavioral Healthcare is a “new” organization, the focus of compliance efforts has been to design and implement a Corporate Compliance Program that promotes integrity, ensures objectivity, fosters trust and supports ethical standards of business practice. The Area Board approved the Corporate Compliance Plan and the Employee Code of Ethics and Conduct in the first half of the fiscal year and subsequently made a commitment to compliance and ethics. The Board further adopted non-retaliation policies which allowed Alliance to establish open communication between the Corporate Compliance Officer (CCO) and employees, an important element of a Compliance Program. An anonymous hotline was implemented and employees were informed of options to report compliance violations.

During new employee orientation Alliance employees received compliance training in the areas of corporate compliance, false claims act, program integrity, confidentiality, HIPAA privacy, code of ethics and conduct, conflict of interest, and development, management and location of policies and procedures.

In the second part of the fiscal year, the Compliance Department hired a Special Investigations Unit to carry out program integrity functions; they received training, conducted investigations and reported adverse findings to the Corporate Compliance Committee.

II. Work Plan Activities

A. Fraud and Abuse

In accordance with 42 CFR § 438.608 and contractual obligations with North Carolina Department of Health and Human Services (DHHS) Division of Medical Assistance (DMA) Alliance developed processes to detect, correct, and prevent fraud, waste, and abuse and to report suspected fraud and abuse to the DMA Program Integrity Unit.

Prevention

Prior to going live as a Managed Care Organization (MCO), we provided training to all employees during new hire Orientation. Training included applicable laws, such as the False Claims Act and the Anti-kickback Statutes, identification and reporting of suspected fraud and abuse and the Alliance Compliance Program and applicable policies and procedures. A
Compliance Bulletin and Fraud, Waste, and Abuse Fact Sheet were distributed to all employees prior to go live date including instructions on how to report. We provided training and information to providers during the quarterly All Provider Meeting and via the Alliance website prior to beginning operations as an MCO.

Detection
We hired a Special Investigations Unit (SIU) to conduct fraud and abuse detection activities. The team is part of the Compliance Department and consists of a Supervisor, one Investigator II (licensed clinician) and one Investigator I. All three are certified Specialized Investigators. A Compliance Data Analyst developed reports to identify irregularities in provider billing, utilization of services, and other compliance and quality issues that may indicate fraud or abuse of program funding. The Fraud and Abuse Hotline was published on the Alliance website, in the Provider Operations Manual and Consumer and Family Handbook for providers, consumers, community stakeholders and Alliance employees to report activities consistent with fraud and abuse.

The SIU investigated suspicious fraud or abuse activities either at the Alliance office as desk reviews or at the provider sites announced or unannounced. Suspected fraud was reported in several cases to the Division of Medical Assistance (DMA) Program Integrity Unit, in accordance with the DMA Contract. The SIU reported findings, other than fraud, to the Corporate Compliance Committee for determination of administrative actions or sanctions. A monthly report of activities and actions was submitted to the DMA Program Integrity Unit.

The SIU received referrals through the hotline, other Alliance departments, grievances and complaints. Referrals as well as identified abnormal billing patterns may trigger a preliminary investigation and/or full investigation.

<table>
<thead>
<tr>
<th></th>
<th>Referrals</th>
<th>Investigations *Pre/Full</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>February</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>March</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>April</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>May</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>June</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 1: Number of fraud and abuse allegations referred to SIU and the number of investigations conducted by SIU January-June 2013. Data Source: SIU Database
The Division of Medical Assistance developed an Explanation of Benefits (EOB) survey to be used as a program integrity tool. We issued 33-56 EOBs to a random sample of consumers each month from February through June and the SIU conducted follow-up activities based on information provided in the returned surveys.

<table>
<thead>
<tr>
<th>Month</th>
<th>Number of EOBs Mailed</th>
<th>Number Responded</th>
<th>Answers of Concern</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>56</td>
<td>19</td>
<td>0</td>
</tr>
<tr>
<td>March</td>
<td>44</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>April</td>
<td>34</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>May</td>
<td>33</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>June</td>
<td>33</td>
<td>10</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 2: Number of EOBs mailed, responded to and number of answers of concern. *Data Source: EOB Tracking*

Resolution

Procedures were developed for Alliance to impose sanctions or administrative actions against Network Providers. The procedures were implemented as part of the Corporate Compliance Committee (CCC) process. Results from routine and focused monitoring, complaint investigations, post payment reviews, quality reviews, fraud and abuse investigations or other oversight activities completed by Alliance or other LME/MCOs or oversight agencies are reported to the Corporate Compliance Committee. The CCC reviews non-compliance findings and makes a determination of required or recommended actions. Administrative Actions which do not affect the provider’s standing in the Network are issued by the CCC and other Sanctions are recommended by the CCC with the final decision made by the Chief Executive Officer (CEO) after the Provider has been invited to meet with the CEO.

Administrative Actions include:
1. Decrease in Gold Star Provider Performance Profile Level
2. Moratorium on Expansion of Sites or Services
3. Warning/Educational letter
4. Plan of Correction
5. Probation (increased monitoring)
6. Identification, Recovery or Recoupment of identified Overpayments

Sanctions which affect a Provider’s standing in the Network include:
1. Limiting Referrals
2. Suspension of Referrals
3. Payment Suspension
4. Suspension from Closed Network
5. Site or Service Specific Termination
6. Termination from Closed Network
7. Exclusion from Participation in Closed Network

Tables 4 and 5 (below) show the number of compliance issues that prompted actions or sanctions to be issued by Alliance.

Table 4: Number of Provider compliance issues (here categorized by risk area) that resulted in actions/sanctions to the service provider February-June 2013. *Data Source: Provider & Reconsideration Tracking Database*

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>DHSR Action</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Contract Requirement</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other Agency Action</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>DMA Action</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Confidentiality</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Billing/Documentation</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 5: Number of compliance issues that resulted in actions/sanctions to the service provider (here categorized by service type) February-June 2013. *Data Source: Provider & Reconsideration Tracking Database*

<table>
<thead>
<tr>
<th>Services</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Innovations</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Outpatient</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Both *Outpt &amp; Enhanced</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>All</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
B. Confidentiality
Alliance hired a Health Information Coordinator to oversee medical records, records retention, HIPAA Privacy and confidentiality under the supervision of the Corporate Compliance Officer. We developed and implemented policies and procedures in compliance with HIPAA Privacy and Security Rules, Federal Regulations for substance abuse records and State Statutes covering client rights to confidentiality. A Privacy and Security Incident Report was developed and implemented along with a HIPAA breach tool and a tracking mechanism for reporting purposes. Alliance employees received training on confidentiality, privacy and security as well as how to report and document privacy and security breaches. We reviewed and investigated breaches and the Corporate Compliance Committee determined final resolution. We also received, reviewed and resolved Privacy Complaints filed by consumers against providers and provided technical assistance to Network providers.

The Omnibus rule (final HIPAA/HITECH Act Rule) went into effect in the second half of the fiscal year and we revised procedures, Business Associates Agreements, and the Notice of Privacy Practices in order to meet compliance dates set for September, 2013.

C. Ethics
Alliance developed and implemented a Code of Ethics and Conduct which reflects Alliance’s commitment to comply with the law and to conduct business in an ethical manner. We provided training to all employees upon hire and all employees signed a form attesting to having read the Code as well as understanding and committing to obey the Code. We tracked signed attestation forms in a database for auditing purposes.

We contracted with a third party vendor for the anonymous reporting of compliance and ethics violations through a hotline and we announced the hotline in trainings and in a Compliance Bulletin distributed to all employees.

The Compliance Officer received, investigated, and resolved reported violations in accordance with Alliance policies and procedures.

D. Conflict of Interest
Alliance developed Conflict of Interest policies and procedures to comply with the law and contractual obligations and to reduce risk to the organization and its employees. We implemented the policies and procedures by providing training to new employees. We enforced the procedures by requiring mandatory submission of completed disclosure forms. We tracked completion of the form for auditing purposes. Each disclosure form was reviewed by supervisors and the Compliance Officer for effective remediation of actual, perceived or potential conflict in compliance with approved procedures.

E. Hiring Excluded Individuals
It is against the law for Alliance Behavioral Healthcare to hire or contract with professionals or entities that have been excluded from participation in federally funded healthcare programs such as Medicaid and Medicare. Using the following databases: LEIE (the DHHS, Office of
Inspector General’s List of Excluded Individuals/Entities; SAM (System for Award Management formerly Excluded Parties List System or EPLS), Alliance conducted exclusions checks on all employees and members of the Area Board prior to going live as a Managed Care Organization and all new employees thereafter. We also conducted monthly exclusions checks on all practitioners and agencies in the Provider Network. Checks were tracked for auditing purposes and reported to the Corporate Compliance Committee.