

POLICIES AND PROCEDURES MANUAL

Chapter:	Finance		
Title:	Risk Management – Internal Service Fund		
Policy: <input checked="" type="checkbox"/> Procedure: <input type="checkbox"/> Page: 1 of 2	Review Cycle: Biennial Author: Chief Financial Officer	Adopted Date: 07.01.2014 Review Date: 05.13.2025	Related Policies: Financial Management Investments

Purpose

Mid-State Health Network (MSHN) will establish an internal service fund (ISF) as a method for securing funds as part of the region-wide strategy for managing Medicaid risk exposure under the Michigan Department of Health and Human Services (MDHHS)/Prepaid Inpatient Health Plan (PIHP) Medicaid Managed Specialty Supports and Services Contract. The funding of the ISF will be maintained at a level that sufficiently covers the projected overall risk of the Pre- Paid Inpatient Health Plan (PIHP), yet ensures maximum funds are directed to consumer services.

Policy

- A. As an integral part of risk management planning, the PIHP shall determine the necessity and the optimal funding amounts for an ISF, with the input and analysis provided by the MSHN Finance Council.
- B. The ISF shall be maintained by the PIHP in accordance with the MSHN Investment Policy and in compliance with MDHHS/PIHP Services and Supports Contract with the Michigan Department of Health and Human Services consistent with the following criteria:
 1. Contributions to the ISF shall retain their character as state funds in accordance with the Mental Health Code. MDHHS allows Medicaid and Healthy Michigan Plan (HMP) reserves to be used interchangeably to cover cost overruns in both funding stream. The use of funds to cover cost overruns assumes the funding stream in question exhausted its reserves prior to the redirection.
 2. Funds used to finance the ISF shall not be used as local funds or used to match federal cost sharing.
 3. ISF funds will be invested in accordance with the MSHN Investment Policy.
 4. Interest earnings from the investment of ISF funds shall be used to fund the risk reserve and shall be maintained in the fund.
- C. MSHN shall determine at least semi-annually the optimum ISF funding level using the following criteria:
 1. The expected risk based on historical costs experience or reasonable cost assumptions.
 2. The funds contributed to the ISF determined in compliance with reserve requirements as defined by Generally Accepted Accounting Principles (GAAP) and applicable federal and state provisions, as stated in the MDHHS Services and Supports Contract.
 3. Charges allocated to the various programs/cost categories based on the relative proportion of the total contractual obligation.
- D. MSHN shall review the costs charged against the ISF using the following criteria:
 1. Costs are restricted to the defined purpose of the ISF and no expenses can be charged to these funds
 2. The proper share of the risk corridor is charged to the ISF

E. MSHN shall review the total funding level of the ISF to ensure that:

1. If the ISF becomes over-funded, it shall be reduced within one fiscal year through the abatement of current charges.
2. If abatements are inadequate to reduce the ISF to the appropriate level, it shall be reduced through refunds in accordance with Office of Management and Budget (OMB) Circular 2 Code of Federal Regulations (CFR) 200 Subpart E Cost Principles.
3. Upon dissolution of the ISF, any funds remaining in the ISF after all of its claims and related liabilities have been liquidated shall be refunded pursuant to OMB Circular 2 CFR 200 Subpart E Cost Principles

Applies to:

- ☐ All Mid-State Health Network Staff
☐ Selected MSHN Staff, as follows:
☐ MSHN's CMHSP Participants: ☒ Policy Only ☐ Policy and Procedure
☐ Other: Sub-contract Providers

Definitions:

GAAP: Generally Accepted Accounting Principles

ISF: Internal Service Fund; Risk reserve fund that can be used by the PIHP to cover Medicaid and Healthy Michigan Plan risk corridor financing, if necessary, per the shared risk contract with MDHHS

MDHHS: Michigan Department of Health and Human Services

MSHN: Mid-State Health Network

OMB: Office of Management and Budget

PIHP: Pre-paid Inpatient Health Plan

Other Related Materials

MSHN Investment Policy

References/Legal Authority

The following federal and state statutes, contracts, and technical specifications establish the standards for Mid-State Health Network's Risk Management – ISF procedure.

- A. The Balance Budget Act of 1997
- B. OMB Circular 2 CFR 200 Subpart E Cost Principles
- C. Mental Health Code
- D. Michigan Department of Health and Human Services Contract for 1115 Behavioral Health Demonstration Waiver Program, the Health Michigan Plan and relevant approved Waivers (Children's Waiver Program (CWP), Habilitation Supports Waiver (HSW), Serious Emotional Disturbance (SED))
- E. Generally Accepted Accounting Principles

Change Log:

Date of Change	Description of Change	Responsible Party
04.01.2014	New policy	Chief Compliance Officer
07.07.2015	Annual Review	Chief Financial Officer
07.05.2016	Annual Review	Chief Financial Officer
03.20.2017	Policy Update	Chief Financial Officer
03.2018	Policy Update	Chief Financial Officer
03.2019	Policy Update	Chief Financial Officer
01.2021	Biennial Review	Chief Financial Officer
01.2023	Biennial Review	Chief Financial Officer
12.2024	Policy Update	Chief Financial Officer