

Community Mental Health Partnership of Southeast Michigan		Policy: <i>Financial Stability & Risk Reserve Management</i>	
CMHPSM Board Governance			
Original Board Approval 8/9/2017	Date of Board Approval 5/12/2021	Date of Implementation 6/1/2021	

I. PURPOSE

It is the policy of the Community Mental Health Partnership of Southeast Michigan (CMHPSM) to manage funding from the State of Michigan consistent with State Contracts, 2 CFR 200 Uniform Guidance, and prudent financial practices.

II. REVISION HISTORY

Revision Date	Modification	Implementation Date
8/9/2017	Original Board Approval	8/9/2017
5/13/2020	Reviewed	5/13/2020
5/12/2021	Reviewed and Updated	6/1/2021

III. SCOPE

The Financial Stability & Risk Reserve Management policy applies to all Community Mental Health Service Programs (CMHSPs) and Substance Use Disorder (SUD) Core Providers affiliated with the CMHPSM.

IV. OBJECTIVES

The primary objectives of the Financial Stability & Risk Reserve Management policy are to protect the financial stability of the Region, to ensure sufficient funding is available to deliver medically necessary services to Consumers who are served within the CMHPSM and to ensure compliance with State contracts.

V. STANDARDS

The CMHSPs shall have a sufficient capacity of staff and/or contracted service providers to ensure that medically necessary services can be furnished to Consumers promptly and without compromise to quality of care at a reasonable cost. Utilizing a person-centered individual plan of service, the CMHSPs shall provide, or authorize the provision of services in the amount, for the duration, and with a scope that is appropriate to reasonably achieve the medical necessity associated with each authorized service for the Consumer.

As it pertains to this Policy, the CMHPSM Chief Financial Officer (CFO) will be responsible for maintaining effective communications with the Finance Officers of the CMHSPs and SUD Core Providers in order to obtain up-to-date financial information as noted below. The CMHPSM CFO will communicate this information and advise the

CMHPSM Chief Executive Officer on its impact on the financial status of the Regional Entity. The CMHPSM CEO will ensure that the appropriate level of financial status details is made available to the CMHPSM Regional Board of Directors in a timely manner.

In order to achieve the objectives of this Policy, the following standards and practices will be followed:

A. BUDGET PROCESS

- CMHSP budgets will be developed using revenue projections proposed by the CMHPSM and reviewed by the Regional Finance Committee and Regional Operations Committee.
- CMHPSM Regional Board approval of the CMHPSM budget is required prior to funding being made available to the CMHSPs.
- Budgeted expenditures at the CMHSPs will not exceed the revenue projections as denoted in the most current CMHPSM Regional Board approved budget.
- Budget amendments will be presented to the CMHPSM Regional Board as recommended by the Regional Finance Committee and the Regional Operations Committee.
- If significant changes such as new service provision modalities, administrative operations, labor agreements, etc. are anticipated in an upcoming budget year, detailed projected financial information should be provided in advance to the CMHPSM prior to inclusion in an upcoming budget.
- The CMHPSM shall develop an internal PIHP administrative budget sufficient to maintain compliance with the PIHP Medicaid Managed Specialty Supports and Services Contract with the Michigan Department of Health and Human Services.
- The budgets of the CMHSPs shall include budgeted expenses related to the PIHP managed care functions that have been delegated to the CMHSP from the CMHPSM
- The total CMHPSM budget, including the PIHP administration budget, must be in balance with the revenues that are projected to be received from the Michigan Department of Health and Human Services (MDHHS). Any utilization of non-current year revenue sources such as carryforward, Medicaid savings or ISF funds will be specifically identified within the budget brought to the CMHPSM Board for review and approval.

B. REPORTING

- The CMHPSM and CMHSPs must produce accurate reports of their fiscal year-to-date (FYTD) actual expenditures versus their annual budget in a traditional Revenue and Expense format, as well as a FYTD Fund Source Report on a monthly basis, fund sources shall be delineated by: Medicaid, Healthy Michigan Plan, C-Waiver programs, and Autism funding. The CMHSPs will provide this and other requested financial data to the CMHPSM according to an established and agreed upon schedule as approved by ROC. The CMHPSM CFO is responsible for communicating the agreed upon schedule to the CMHSPs and collecting and summarizing regional finance reports.
- PIHP expenditure information will be reviewed with the CMHPSM Board at its monthly Board meeting in order to keep the Board appraised of the financial condition of the Region. The CMHPSM shall present CMHSP financial data on a

regular basis to inform the Board of CMHSP financial issues that could present a risk to the overall fiscal health of the Region.

C. SIGNIFICANT VARIANCES TO BUDGET

- It is important that resources be distributed in an equitable manner throughout the region to ensure services are available to all individuals that are eligible. If CMHSP FYTD financial reports indicate that significant underspending or overspending is occurring at a CMHSP, then that CMHSP will be required to submit a written report to the PIHP that explains the variance. A significant amount of underspending or overspending shall be defined as:
 - A 5% or greater variance from the most recent Board approved budget revenue for an individual CMHSP.
 - A CMHSP variance that is individually within 5% of their annual budgeted revenue but is not in alignment with the regional budget variance trend by 5% or greater. (For example: a single CMHSP is overspending their budgeted revenue at 4%, but the regional variance is trending at an underspend of 3%, thus the CMHSP is 7% off of the regional trend.)
 - A cumulative budget variance of more than 3% when combining the regional CMHSPs and PIHP service and administrative expense budgets. (For example: all four CMHSPs are overspending their budget by 3% would necessitate the utilization of ISF during the fiscal year.
- PIHP staff will present the CMHSP explanation to the CMHPSM Board related to significant underspending or overspending after analysis at the Regional Finance Committee meeting. Similarly, the CMHPSM will present an explanation to the CMHPSM Board when significant underspending or overspending is occurring within the PIHP internal administrative budget.
- A corrective action may be required by the CMHPSM Board when significant underspending or overspending occurs within the Region.
- If a corrective action plan is required and the required goals are not met in a timely basis, then the PIHP shall conduct an operational review of the CMHSP.
 - An operational review may include examinations of the contracts, costs, level of Consumer service provision and other items as deemed necessary to understand the overspending or underspending situation.
 - An initial consultative review lead by the CMHPSM will be conducted by individuals from the CMHPSM, as well as all CMHSPs, who are recognized as subject matter experts in the areas that will be reviewed.
 - If the initial consultative review assessment indicates that the issues are structural and not able to be resolved within the current year, then external consultants may be utilized to aid with the development of a corrective action plan that will resolve the budget issue.
 - Recommendations to address a shortfall at one of the CMHSPs may include the redistribution of available funds within the region, if the use of such funding does not adversely impact the delivery of services within the Region.
 - Recommendations may also include the use of available Internal Service Fund (ISF) in the present year, if there are significant revenue changes by the State, new high-cost Consumers enrolled by a CMHSP, increased utilization or changes to the State's requirement on how services are to be provided to Consumers.

- If the consultative review assessments determine that a significant budget variance is derived from a local CMHSP's financial management factors, that CMHSP would be required to submit a budget for the following fiscal year that would not require the ongoing use of ISF revenue.
- Corrective Action Plans may include the consideration of alternative sourcing options for service provision or other financial actions which would not disrupt the provision of services.
- The Regional Operations Committee may recommend to the CMHPSM Board that the PIHP conduct a targeted financial/operational review of a CMHSP to the CMHPSM Board when an emerging financial concern projects to negatively impact the region's financial stability. The CMHPSM Board may approve such a targeted financial and operational review without first requiring a corrective action plan.

D. UTILIZATION OF INTERNAL SERVICE FUND BALANCE

- The ISF shall primarily be utilized to hold funds necessitated by the CMHPSM risk management strategy relative to the shared risk corridor with MDHHS. Generally, use of the ISF should only be requested if there are significant unexpected changes during a fiscal year which can't be managed regionally within current year revenue. Potential current year ISF utilization will be reviewed initially at the Regional Finance Committee. Examples of significant unexpected changes include regional revenue not meeting projections, service delivery that exceeds projected medical necessity, expansion of service benefits or beneficiaries, and other appropriate variances as reviewed by the Regional Operations Committee.
- The ISF should be the option of last resort to address present fiscal year budget overruns. The Regional Operations Committee will review all utilization of the ISF on a regional basis.
- The utilization of ISF resources will be brought to the CMHPSM Board for approval during the initial or amended budget processes.

VI. DEFINITIONS

Balanced Budget: A budget in which expenses are equal or less than the estimated or projected revenue.

Community Mental Health Partnership of Southeast Michigan (CMHPSM): The Regional Entity that serves as the Prepaid Inpatient Health Plan for Lenawee, Livingston, Monroe and Washtenaw counties for mental health, intellectual/developmental disabilities, and substance use disorder services.

Community Mental Health Service Program (CMHSP): Separate legal entities that the CMHPSM contracts with for the provision of Medicaid services to residents of the Counties served by the CMHPSM.

Generally Accepted Accounting Principles: Accounting principles that are the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements.

Internal Service Fund (ISF): The Internal Service Fund (ISF) is one method for securing funds as part of the overall strategy for covering risk exposure under the MDHHS/PIHP Medicaid Managed Specialty Supports and Services Contract. The ISF should be kept at a minimum to assure that the overall level of PIHP funds are directed toward consumer services.

2 CFR 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

Regional Operating Committee (ROC): Committee comprised of the Executive Directors of the CMHSPs and the CEO of the CMHPSM.

VII. REFERENCES

1. Agreement Between Michigan Department of Health and Human Services And PIHP: CMH PARTNERSHIP OF SOUTHEAST MI for The Medicaid Managed Specialty Supports and Services Concurrent 1915(b)/(c) and 1115 Waiver Program(s), and the Healthy Michigan Program.
2. 2 CFR 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards
3. Agreements Between CMHPSM And the Lenawee, Livingston, Monroe, and Washtenaw County CMHSPs For the Provision of Medicaid Services to Residents of Their Respective Counties