

The Right Door for Hope, Recovery and Wellness

Chapter Title Fiscal Resources	Section # F		Subject # 221
Subject Title Internal Services Fund – Risk Corridor Financing	Adopted 9/24/01	Last Revised 9/20/16	Reviewed 4/24/06; 9/22/08; 8/24/09; 8/30/10; 9/26/11; 10/29/12; 9/23/13; 10/20/14; 10/19/15; 9/26/16; 9/25/17

POLICY

Application

This policy shall apply to The Right Door for Hope, Recovery and Wellness.

1.0 Intent

To establish an Internal Service fund (ISF) for the purpose of securing funds to cover risk exposure in accordance with the shared risk provisions contained in the Michigan Department of Health and Human Services (MDHHS) and the Community Mental Health Service Provider (CMHSP) Managed Specialty Supports and Services Contract. The ISF shall be kept at a minimum to assure that the overall level of funds will be directed toward consumer services.

2.0 Policy

- 2.1 The ISF will be established for the purpose of securing funds necessary to meet expected risk corridor financing requirements under the MDHHS/CMHSP Contract.
- 2.2 The internal services fund will be maintained in an account separate from other operating accounts.
- 2.3 When establishing an ISF, the CMHSP may apply any method it considers appropriate to determine the amounts to be charged to the various funds covered by the ISF provided that:
 - 2.3.1 The total amount charged to the various funds does not exceed the amount of the estimated liability determined pursuant to Governmental Accounting Standards Board (GASB) Statement No. 10, *General Principles of Liability Recognition*, or such other authoritative guidance as issued by the American Institute of Certified Public Accountants (AICPA); and
 - 2.3.2 The estimated liability is computed based on an actuarial method or historical cost information as provided under Office of Management

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and Budget (OMB) Circular A-87, Attachment B, paragraph 25(d), which is attached to this document and, accordingly, made a part of this Technical Requirement. Under this method, additional charges may be made to various funds that represent a reasonable provision for expected future catastrophic losses.

- 2.4 Non-compliance with the provisions of GASB Statement No. 10 and OMB Circular A-87 relative to any applicable matter herein will cause the ISF charges to be unallowable for purposes of the MDHHS/CMHSP Contract.
- 2.5 The Board shall not commingle the ISF with funds of other departments, agencies, governmental funds or entities. The ISF shall not be used to finance any activities or costs other than ISF eligible expenses.
- 2.6 All programs exposed to the risk corridor shall be charged their proper share of the ISF charges to the extent that those programs are covered for the risk of financial loss. Such charges must be allocated to the various programs/cost categories based on the relative proportion of the total contractual obligation, actual historical cost experience, or reasonable historical cost assumptions. If actual historical cost experiences or reasonable historical cost assumptions are used, they must cover, at a minimum, the most recent two years in which the books are closed.
- 2.7 A set of self-balancing accounts shall be maintained for the ISF in compliance with generally accepted accounting principles (GAAP).
- 2.8 The Board shall restrict the use of the ISF to the defined purpose.
- 2.9 The amount of funds paid to the ISF shall be determined in compliance with reserve requirements as defined by GAAP and applicable federal and state-financing provisions contained in the MDHHS/CMHSP Contract.
- 2.10 To establish funding level to cover risk corridor requirements, the Board may make payments up to the lesser of: (1) the total potential liability relative to the risk corridor and the overall risk management strategy of the Board's operating budget; or (2) the risk reserve requirements determined under

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paragraph 2.3 above and the applicable financing provision contained in the MDHHS/CMHSP Contract.

- 2.11 In the event the ISF(s) becomes inadequate to cover future losses and related expenses, procedures for increasing payments to the ISF(s) will be developed.
- 2.12 Payments and funding levels of the ISF(s) shall be analyzed biannually pursuant to the provisions of the OMB Circular A-87, Attachment B, paragraph 25 (d)(3).
- 2.13 If an ISF becomes over funded, that ISF shall be reduced within one fiscal year through the abatement of current charges or, if such abatements are inadequate to reduce that ISF to the appropriate level, it shall be reduced through refunds in accordance with OMB Circular A-87, Attachment B, paragraph 25(d)(5).
- 2.14 Upon dissolution of any ISF, any funds remaining in that ISF after all its' claims and related liabilities have been liquidated shall be refunded pursuant to OMB Circular A-87, Attachment B, paragraph 25(d)(5).
- 2.15 Use of funds held in the ISF shall be restricted to payment of the Board's risk corridor obligation.
- 2.16 The Board may invest ISF funds in accordance with the statutes regarding investments (e.g., Mental Health Code 330.1205, Sec. 205 (g)). The earnings from the investment of the ISF funds shall be used to fund the risk reserve requirements of the ISF in accordance with OMB Circular A-87, Attachment B, paragraph 25(d)(2).
- 2.17 The ISF may not loan or advance funds to any department, agencies, government funds or other entities, in accordance with OMB Circular A-87, Attachment B, paragraph 25 (d)(5).
- 2.18 Funds paid to the ISF shall not be used to meet federal cost sharing or used to match federal or state funds pursuant to OMB Circular A-87, Attachment A, paragraph C(1).

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- 2.19 State funds paid to the ISF established for Mental Health/Developmentally Disabled services, shall retain its' character as state funds in accordance with the Mental Health Code and shall not be used as local funds.
- 2.20 Each ISF shall be established and accounted for in compliance with the following standards:
 - 2.20.1 Generally Accepted Accounting Principles (GAAP).
 - 2.20.2 GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, or other current standards.
 - 2.20.3 Financial Accounting Standards Board (FASB) Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, or other current standards.
 - 2.20.4 FASB Statement No. 5, *Accounting for Contingencies*, or other current standards.
 - 2.20.5 OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or other current standards.
 - 2.20.6 Other financing provisions contained in the MDHHS/CMHSP Contract.
 - 2.20.7 The financial requirements set forth in the HCFA Federal 1915(b) waiver.

Melissa McKinstry, Board Chairperson	Date		