

# ADMINISTRATIVE COSTS BY PIHPs, CMHSPs, AND CONTRACTED ORGANIZED PROVIDER SYSTEMS

(FY2009 Appropriation Bill - Public Act 246 of 2008)

**July 1, 2009**

**Section 460:** (1) The uniform definitions, standards, and instructions for the classification, allocation, assignment, calculation, recording, and reporting of administrative costs by PIHPs, CMHSPs, and contracted organized provider systems that receive payment or reimbursement from funds appropriated under section 104 that were implemented in fiscal year 2006-2007 by the department shall also be implemented for their subcontractors in fiscal year 2008-2009. (2) The department shall provide the house of representatives and senate appropriations subcommittees on community health, the house of representatives and senate fiscal agencies, and the state budget director with a progress report on the implementation required under subsection (1). The progress report is due on July 1 of the current fiscal year.

*Michigan Department  
of Community Health*



**Jennifer M. Granholm, Governor**  
**Janet Olszewski, Director**

**Department of Community Health  
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Boilerplate Report for Section 460(2)**

Consistent with the requirements of Section 460 (2), the DCH contract with PIHPs and CMHSPs continued the Administrative Cost Reporting requirements established in FY2007. As reported in 2008, this presented significant challenges in reporting administrative costs as these had been defined. Keeping these concerns and the associated reporting burden in mind, the decision was reached to use administrative cost information from the Internal Revenue Service (IRS) Form 990 that private non-profit organizations are required to file. These 990 tax returns are public information and have proven to be useful to CMHSPS in negotiating provider service contracts. These also provide a consistent definition of administrative functions which provides comparability across organizations.

Both DCH and the CMHSPs are committed to both consistent administrative cost reporting and to the production of system-wide information about administrative costs. During 2009 CMHSP contract development for FY2010, the following administrative financial reporting requirements were adopted:

*6.6.2 Financial Reporting....In addition to the Cost Allocation Plan, CMHSPs shall collect and report administrative costs of the CMHSP and service providers. DCH shall work with the CMHSPs to develop administrative cost information that is accurate, consistent, reliable, useful and administratively feasible to collect and maintain. Each component of FY09 reporting requirements will remain in effect until the subgroup established for this purpose has completed its review and developed recommendations....*

The expanded Cost Allocation Team work group convened in October 2009 and the administrative allocation and cost reporting requirements developed through this work group were issued February 17, 2010. Among the principles used in determining these requirements were: use of an administrative definition that provides comparability across similar health care organizations and that satisfies regulatory requirements; that information be sufficiently detailed to accurately portray these costs given the variations in CMHSP organizational structures and operations; that these provide sufficient information so that opportunities for efficiencies can be identified. This is intended to be an ongoing workgroup that will be directed towards the accuracy and integrity of the administrative cost information and to identifying how this information can be used to keep administrative costs at a minimum.