

INTERNAL SERVICE FUND TECHNICAL REQUIREMENT

Purpose

The establishment of an 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 (MDHHS/PIHP Contract). The ISF should be kept at a minimum to assure that the overall level of PIHP funds are directed toward consumer services. General provisions and restrictions for establishing an ISF are outlined below:

General Provisions

- A. PIHPs may establish an ISF for risk corridor financing in accordance with shared risk provisions contained in the MDHHS/PIHP Contract with the Michigan Department of Health and Human Services .
- B. An ISF may be established for the purpose of securing funds necessary to meet expected risk corridor financing requirements under the MDHHS/PIHP Contract.
- C. When establishing an ISF, the PIHP may apply any method it considers appropriate to determine the amounts to be charged to the various funds covered by the ISF provided that:

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

- D. Non-compliance with the provisions of GASB Statement No. 10 and 2 CFR 200 Subpart E Cost Principles relative to any applicable matter herein will cause the ISF charges to be unallowable for purposes of the MDHHS/CMHSP Contract.
- E. The ISF shall not be used to finance any activities or costs other than ISF eligible expenses.
- F. 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.
- G. A set of self-balancing accounts shall be maintained for the ISF in compliance with generally accepted accounting principles (GAAP).
- H. The PIHP shall restrict the use of the ISF to the defined purpose.

- I. 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/PIHP Contract.
- J. To establish an adequate funding level to cover risk corridor requirements, the PIHP 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 PIHP's operating budget; or (2) the risk reserve requirements determined under paragraph C above and the applicable financing provisions contained in the MDHHS/PIHP Contract.
- K. The PIHP shall establish a policy and procedure for increasing payments to the ISF in the event that it becomes inadequate to cover future losses and related expenses.
- L. Payments to the ISF shall be based on either actuarial principles, actual historical cost experiences, or reasonable historical cost assumptions, pursuant to the provisions of OMB Circular A-87, Attachment B, paragraph 2 2(d)(3). If actual historical cost experiences or reasonable historical cost assumptions are utilized, they must cover, at a minimum, the most recent two years in which the books have been closed.
- M. Payments and funding levels of the ISF shall be analyzed and updated at least biannually pursuant to the provisions of 2 CFR 200 Subpart E Cost Principles.
- N. If the ISF becomes over-funded, it shall be reduced within one fiscal year through the abatement of current charges or, if such abatements are inadequate to reduce the ISF to the appropriate level, it shall be reduced through refunds in accordance with 2 CFR 200 Subpart E Cost Principles.
- O. Upon contract cancelation or expiration, any funds remaining in the ISF and all of the related claims and liabilities shall be transferred to the new PIHP that encompasses the existing PIHPs region. When existing PIHPs geographic regions overlap more than one new PIHP region MDHHS will provide the percentage allocation to each new PIHP.

General Restrictions

Use of funds held in the ISF shall be restricted to the following:

- A. The PIHP shall restrict the use of the ISF to the defined purpose. The defined purpose of the ISF is to secure funds necessary to meet expected future risk corridor requirements established in accordance with the MDHHS/PIHP Contract between the PIHP and the Michigan Department of Health and Human Services . All expenses, for the purpose intended to be financed from the ISF, shall be made from the ISF. No expenses from this fund will be match able--only the payments to the ISF will be match able. No other expenses may be paid from the ISF.
- B. Payment of the PIHP's risk corridor obligation.
- C. The PIHP may invest ISF funds in accordance with statutes regarding investments (e.g., *Mental Health Code* 330.1205, Sec. 205(g)). The earnings from the investment of ISF funds

shall be used to fund the risk reserve requirements of the ISF in accordance with 2 CFR 200 Subpart E Cost Principles.

- D. The ISF may not loan or advance funds to any departments, agencies, governmental funds, or other entities in accordance with 2 CFR 200 Subpart E.
- E. Funds paid to the ISF shall not be used to meet federal cost sharing or used to match federal or state funds pursuant to 2 CFR 200 Subpart E.
- F. State funds paid to the ISF shall retain its character as state funds in accordance with the Mental Health Code and shall not be used as local funds.

General Accounting Standards

The ISF shall be established and accounted for in compliance with the following standards:

- A. Generally accepted accounting principles (GAAP).
- B. GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, or other current standards.
- C. Financial Accounting Standards Board (FASB) Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, or other current standards.
- D. FASB Statement No.5, *Accounting for Contingencies*, or other current standards.
- E. 2 CFR 200 Subpart E, *Cost Principles*, or other current standards.
- F. Other financing provisions contained in the MDHHS/PIHP Contract.
- G. The financial requirements set forth in the HCFA Federal 1915(b) waiver.