
Lakeshore Regional Entity (LRE)

Financial Risk Management Plan 2020

This Financial Management Plan is prepared as an integral part of the annual operational and fiscal budget planning process. The Financial Management Plan shall be approved by the Lakeshore Regional Entity (LRE) Board on an annual basis. Multiple components of this year's plan are still subject to mutual agreement between all parties including the MDHHS on all Settlement Terms and Requirements of the LRE's FY20 PIHP/MDHHS contract. Material revisions not directly a result of change in federal or state statute or regulation or the LRE's contract with the Michigan Department of Health and Human Services (MDHHS) shall also be approved by the LRE Board before implementation. Bylaws of the LRE, the LRE Operating Agreement, and the Financial Management Plan as approved by the LRE Board, are the means to satisfy the legal requirements of the Michigan Mental Health Code, MCL 330.1204b.

The LRE's consolidated Financial Management Plan shall include:

- As part of the annual budget preparation, a consolidated Executive Summary of the most significant operational proposals, changes or initiatives of the LRE or a participating CMHSP, including the financial impacts thereof.
- As part of the annual budget preparation and approval, a consolidated summary of key statistical information, projections and assumptions.
- As part of the annual budget preparation and approval, a Consolidated Summary Statement of Budgeted Income and Expense by payer and business segment.
- A description and pro forma computation of the manner for equitably providing for, obtaining, and allocating revenues between the Regional Entity and participating CMHSPs in sufficient detail to satisfy the requirements of the Michigan Mental Health Code, MCL 330.1204b(1)(c)(i).
- A description and pro forma computation of the method or formula for equitably allocating and financing the LRE capital and operating costs, payments to reserve funds authorized by law, and payments of principal and interest on obligations in sufficient detail to satisfy the requirements of the Michigan Mental Health Code, MCL 330.1204b(1)(c)(ii).
- A description and pro forma computation of the method for allocating any of the LRE's other assets if applicable and in sufficient detail to satisfy the requirements of the Michigan Mental Health Code, MCL 330.1204b(1)(c)(iii).
- A description and pro forma computation of the manner in which, after the completion of its purpose as specified in the LRE bylaws, any surplus funds shall be returned to the participating community mental health services programs in sufficient detail to satisfy the requirements of the Michigan Mental Health Code, MCL 330.1204b(1)(c)(iv).
- A description of the process providing for strict accountability of all funds and the manner in which reports, including an annual independent audit of all the LRE receipts and disbursements, shall be prepared and presented. This will be in sufficient detail to satisfy the requirements of the Michigan Mental Health Code, MCL 330.1204b(1)(e).

- A pro forma of the State required financial status and other mandated reports prepared with budgetary information.
- The LRE Consolidated Financial Management Plan will incorporate Financial Management Plans of participating CMHSPs. The LRE and participating CMHSPs will comply with the Mental Health Code, the MDHHS Rules, the MDHHS/PIHP Master Contracts, and applicable State and federal laws, regulations, rules, policies and procedures, including but not limited to Balanced Budget Act (BBA) of 1997 as amended and OMB Title 2 CFR 200.

Financial Management Functions

The LRE will be responsible for financial management functions which include at least the following:

- 1) Budgeting
- 2) General accounting
- 3) Financial reporting, analysis, and monitoring
- 4) Financial risk management
- 5) Investments management
- 6) Supervision of external audits, internal audits, and internal controls
- 7) Monitoring of CMHSP claims adjudication and payments systems
- 8) Cost allocation process

These functions will be performed by the LRE finance staff under the management direction of the LRE Chief Financial Officer. Similar functions will continue to be performed at the participating CMHSPs because they have local responsibilities and independent contractual obligations outside of the business relationships with the LRE.

1. Budgeting – Annual Projections of Revenues and Expenditures

The primary purpose of the LRE is to contract with the State of Michigan and other payers for services and supports to be delivered to or arranged for covered eligible populations in the region. These services and supports for the regional service area will be provided or arranged for by the LRE, its participating CMHSPs or others as agreed.

Specific provisions as they relate to participating CMHSPs and other entities related to the LRE will be documented in sub-contracts and the annual financial management plan.

It is impossible to know or anticipate all the various payers, business lines, contract provisions and payment methods that may be experienced by the LRE in the future. What is outlined here is based on information that is currently known and available to staff. The LRE CEO and staff will evaluate its relationships and the financial impacts of them before making any new commitments.

The LRE will update revenue quarterly through the LRE budget amendment process to match current year actual revenues. CMH Member Funding exhibits will be updated quarterly to each CMHSP member matching the updated budget amendment approved by the LRE board.

Currently the allocation of revenue is based upon the method identified in the Operating Agreement of the LRE. The LRE will be responsible for identifying expected changes in revenue

for the region and its members. This is monitored monthly with the CMHSPs within the region and by funding bucket.

An actuarial process will be adopted during FY20 to help establish equitable revenue allocations amongst CMHSP members. The model will generate risk scores based on the risk factors of the individuals served by each CMHSP. The risk factors and scores assigned to each individual will then be used to more appropriately allocate revenues for each funding stream. Full implementation of the risk- based model for FY20 is contingent upon a final review and approval of the LRE Board and CMHSP members.

Medicaid State Plan, 1915 (i) / (c) Waiver, Autism Funding

The annual budget shall be prepared and presented as an integral part of the annual financial management plan to be reviewed and approved by the LRE Board.

The LRE Chief Financial Officer will provide revenue projections for each participating CMHSP. Assuming the Medicaid contract continues as a per eligible per month (PEPM) regional rate capitation for eligible populations (from MDHHS to LRE), the allocation of LRE capitation revenue to the CMHSP of financial responsibility will be consistent with the methodology as specified in the LRE Operating Agreement. The new actuarial method to be used will be based on actuarially sound determinations that consider the utilization and cost differences due to the variation in level of need of each eligible.

As with the current PIHP/Medicaid arrangement, the LRE through its ISF and its relationship with Beacon Health Options, as described below, will cover risk as required by its contract with the MDHHS. The LRE will cost settle with the MDHHS. The LRE will retain any year end contract savings (Medicaid savings), risk reserves and other funds considered appropriate by the Regional Board. Beacon Health Options assumption of its portion of the risk will begin at the beginning of the new contract term (Tentative 4/1 or 5/1 2020) and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements.

For participating CMHSPs annual budgets would be established in the budget and financial management planning process and adjusted for changes in eligible covered lives. The LRE Board may approve performance incentives and sanctions for participating CMHSPs.

The LRE uses an innovative strategy and approach to help administer services funded under this plan through its contract with a private managed care organization, Beacon Health Options. As part of the collaborative agreement with the LRE, Beacon Health Options will share in the financial risk for costs of services that exceed the planned FY20 Medical Loss Ratio or budgeted service cost allocation and will also be eligible for receipt of incentives for savings below the planned FY20 Medicaid Loss Ratio or budgeted service cost allocation. Beacon Health Options will only cover cost over runs within the risk corridor once the new contract begins (Tentative 4/1 or 5/1 2020) and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements.

On a quarterly basis the participating CMHSPs shall meet the obligation for local funds as a bona fide source of match for Medicaid. Payments shall be submitted to LRE in accordance with the schedule established by the MDHHS. LRE and participating CMHSPs shall establish mechanisms to assure that the local match of each participating CMHSP is funded at the adequate level. Any participating CMHSP that projects a problem or issue with local match funding shall immediately notify the LRE. A plan of correction must be completed and sent to LRE within ten (10) working days of the identification of the problem.

Capitation revenues will be used as the basis of allocation of regional cost and other regional financial considerations applicable to Medicaid State Plan, 1915 (i)/(c) LRE expense. This percentage will be established annually during the budget setting process. For example, the LRE will deduct and retain the cost of LRE central operations, including Beacon Health Options costs for delegated MCO functions, LRE capital-related cost or debt retirement, risk reserve funding or risk retention, and other considerations.

The net result would constitute the sub-contract annual budget limitation for each participating CMHSP and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements. This initial sub-contract amount would be subject to cost settlement to be described in the subcontract between the LRE and the participating CMHSP. Participating CMHSPs are required to provide all medically necessary services to Medicaid beneficiaries.

Medicaid State Plan, 1915 (i) waiver (Healthy Michigan)

Allocation of Medicaid 1915 (i) waiver revenues among participating CMHSPs and Lakeshore Regional Entity is determined by using a PEPM allocation based upon how the state pays LRE. This is paid after taxes are deducted. In FY20, the region plans to move to a needs-based funding for this program as well, using an actuarial firm to develop the methodology for distributing revenues to the 5 CMHSPs. This funding is tracked separately from the Traditional Medicaid funds.

Substance Abuse Prevention and Treatment Block Grant/PA2

Allocation of substance use prevention and treatment Block Grant and PA2 revenues among participating CMHSPs and LRE are currently allocated as follows:

SUD Prevention Block – Based on Grant Contract with MDHHS

SUD Treatment Block – Based on Grant Contract with MDHHS and then broken down by county based on historical allocations by MDHHS.

SUD PA2 – Based on annual budgets approved by the Oversight Policy Board, this funding is split between Prevention and Treatment by the county the funds are received from. Carry forward funds are set aside for budget management and for future needs for new programs.

Other Revenues

LRE Board considers recommendations for other contracts and thus revenues and expense allocation on a case by case basis. LRE Board may allocate other contracts and revenues among participating CMHSPs and Regional Entity based on a number of beneficiaries or other relevant statistics. LRE will determine course of action for regional grants, if any.

The LRE CFO will prepare an annual budget for centralized operations that include:

- An Executive Summary of significant operational proposals, changes or initiatives including the financial impacts thereof.
- A Summary of Key Statistical Information, Projections and Assumptions
- A Summary Statement of Budgeted Income and Expense by payor and fund source.
- A detail Operating Budget including revenue and expense at the account and cost center level, with a staffing table at the position and cost center level.

- A Capital Budget showing anticipated replacement or new investment in capital assets. Annual budget for the LRE centralized operations will be approved by the LRE Board.

2. General Accounting

The LRE maintains accounting and financial reporting system in accordance with Generally Accepted Accounting Principles (GAAP). The accounting procedures and internal financial controls of the Regional Entity shall conform to Generally Accepted Accounting Principles (GAAP) for governmental units. LRE shall maintain accounts and source records in which any and all revenues received, and expenses incurred are ascertainable and verifiable and include date of receipt / payment and sources of funds. LRE shall have a certified public accounting firm perform an annual independent audit of it in substantial conformance with the American Institute of Certified Public Accountants Guide to assess compliance with the appropriate standard accounting practices and procedures and MDHHS contract requirements.

3. Financial Reporting, Analysis, and Monitoring

The LRE shall review its Financial Management Plan not less than annually and revise the plan as necessary to maintain an adequate and acceptable level of financial management. To ensure the financial stability of the LRE, financial activities shall be performed in accordance with applicable federal and state guidelines, rules and regulations as may apply

Financial management reports for the LRE and each participating CMHSP shall be prepared monthly and presented to the respective boards of directors and administrative management. The LRE shall establish the timing and content for required submission of financial management reports and other data from participating CMHSPs. Quarterly the LRE CFO will prepare a budget amendment to the Board of Directors based on actual received revenues. At the same time, each CMH will get an updated projection from the LRE based on current revenues. These will be used for the bucket reports. If a CMH is not able to administer and pay for services delivered in its catchment area, the LRE and Beacon Health Options will follow an “Escalating Corrective Action” process to implement CMH changes. This arrangement will commence at the onset of the new MDHHS/LRE/Beacon contract and Operating Agreements and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements. All plans will maximize the Person-Centered Planning process and effective transition planning for consumers.

Financial management shall utilize monthly financial, statistical and service data to project revenue and expenditures and to identify financial trends and potential budgetary concerns. With arrangements to coordinate and use the LRE and Beacon Health Options Managed Care Information System (MCIS), authorizations and the potential expenses of those authorizations will be analyzed to ensure the region has the revenue to meet the anticipated expenses. This will assist the LRE Management Team to assess potential risk and to make the necessary steps to manage the risk further if needed. The results of this analysis will be included with monthly financial statements and comparisons to budget information in a monthly bucket report to the LRE board.

The region is also in the process of implementing a region wide approach for determining Level of Care and developing the algorithms to use the information with a focus on the Person-Centered Planning process along with the LOCUS and SIS. This is being implementing at the point of

service and will help determine a service array that is consistent across the region. There may be circumstances where there are exceptions to the service array, but they will be documented and monitored. Although this is a new standard in Michigan, most Managed Care Organizations (MCO) outside of Michigan use this process to help measure risk.

The LRE contracts with Beacon Health Options to delegate and coordinate Managed Care Functions across the region. Many functions including but not limited to Medicaid verification, fraud/waste/abuse investigations, fair hearings and appeals, continued stay reviews for all crisis residential and inpatient services are centralized under this new arrangement. Other managed care functions including but not limited to utilization management criteria for Community Living Support services, provider training, data set format and reporting are standardized.

The goal of this new arrangement is to continue creating savings by efficiencies and to better manage risk. By bringing MCO functions for the region into one organization, it will promote and improve effective management of the region.

The LRE and each participating CMHSP shall maintain an adequate level of working capital (current assets less current liabilities). Any issues or concerns regarding working capital levels at a participating CMHSP shall be timely communicated to the LRE. The LRE will work with each of the CMH members to help with acquiring money for cash flow purposes that may involve lines of credits or other methods.

4. Financial Risk Management

Medicaid 1915 (i) / (c) Waiver

The LRE and Beacon Health Options, along with MDHHS, would be solely responsible for valid Medicaid supports and services and any cost overruns at participating CMHSPs or in the aggregate and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements. Beacon Health Options assumption of this risk will begin at the assumption of the new contract (Tentative 4/1 or 5/1 2020). In FY2018 the region attempted to buy reinsurance but there were no insurance companies that offer that service. As of September 30, 2019, the LRE had no funds in its Medicaid or Healthy Michigan Plan ISF or savings. The LRE does not anticipate having any unrestricted fund balances at September 30, 2019 after its FY19 audit and reconciliations are complete. In FY20, the LRE will begin replenishing its ISF at the actuarial rate determined by the MDHHS actuary. The LRE does not receive any general fund dollars. The general fund dollars received by the CMHSPs within the LRE region are not required to provide services covered under the Medicaid 1915(i) and 1915(c) Waiver programs. The use of other local funds will be determined by LRE Board and Oversight Policy Board action as needed.

The LRE will also likely have the Performance Incentive Bonus of \$2,000,000 or more earned that would be used in a risk pool to cover deficits.

In addition, the new MCO, Beacon Health Options, will be a parental guarantee and partner for the LRE that creates a risk-share design that is being worked out with Beacon, the LRE, and MDHHS. Full implementation of this new design is expected in fiscal year 2020 and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements. Beacon Health Options will also provide advisory input and collaboration to the LRE and

CMHSPs in developing and implementing budgeted allocation models. For FY20, the LRE is not expected to have a local risk obligation.

The total potential risk management dollars available at the region for FY 2020, including ISF and performance bonus dollars, will total \$4,212,844 assuming all prior liabilities have been met.

In addition, the LRE participating CMHSPs will submit timely, complete and accurate financial information, results of operations and apportioned regional contract cost compared to sub-contract revenues which balance to actual confirmed claims and encounters. This is completed each month in a report named the “bucket report”. This report will show Actual Revenue and Expense as of that month for each of the funding sources and then a projection of year end at the bottom of the report by funding source to monitor potential risks.

While the LRE has responsibility for only the regional contract activities and cost, the LRE must assure that it is being charged for only those costs that are ordinary and necessary, properly assigned, allocated and apportioned, for appropriate, medically necessary, covered services provided or arranged for contracted eligible beneficiaries. It is also in the LRE’s best interest to assure itself of the financial stability and viability of participating CMHSPs.

During the fiscal year, if any CMHSP is projecting a budget deficit, the CMHSP will be required to submit a corrective action plan that describes what processes will be taken to ensure that the CMHSP will align expenses with the balanced budget established by the LRE. Regular meetings will also occur to address the problem and to evaluate the potential corrections. The revenue and expenses will then be monitored to verify that the corrective action plan is addressing the issue and results to remedy the situation are occurring. If results of the corrective action plan are not helping to remedy the deficit, additional corrective action plans will then need to be submitted to the LRE. If the need arises, the LRE has the ability to audit the CMHSP member to determine that the Medicaid Costs are accurate and reasonable. The LRE has the right to rescind delegation of functions to the CMHSP to help address uncorrected budget deficits as will be further defined by mutual agreement between all parties including the MDHHS on all settlement terms and requirements.

Should a participating CMHSP exceed, or project to exceed, its sub-contract contract amount, that CMHSP will be provided additional technical support and oversight from the LRE and/or its agents, including Beacon Health Options.

In summary, the LRE and Beacon Health Options, with the CMHSP Participants, are in negotiation with MDHHS on a settlement contract. In addition to receiving a necessary rate increase for FY20, the contract under development will include the following and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements:

- Contracts with CMHSPs will be sub-capitated and based on a regional, actuarially sound allocation model. Capitation means that CMHSPs will be required to provide services within the new allocation.
- A minimum of .75% of revenues, consistent with MDHHS rate setting, will be placed in the regional Internal Service Fund (ISF) prior to allocation to CMHSP Participants.

- LRE/Beacon Health Options will implement an "escalating correction plan" that gives authority to the region to assume functions when financial and program metrics are not being met by the CMHSPs.
- The LRE Board of Directors will include representation from MDHHS, Beacon, community members, and CMHSP representatives, assuring no one group holds a majority status.
- The LRE contract with Beacon Health Options will include Beacon holding risk for deficits.

If necessary, the LRE will submit an amended plan that captures any additional information relevant to this plan and its operations after negotiations are settled.

The LRE's anticipated FY 2020 Medicaid and Autism revenue and expense projections by CMHSP and PIHP are referenced in the table below. The LRE is continuing its process of balancing all of the CMH Member budgets to established revenues in accordance with an agreed upon actuarially sound method.

<u>CMH/PIHP</u>	<u>FY20 Revenue</u>	<u>FY20 Expenses *</u>	<u>Variance</u>
Allegan CMH	\$22,502,995	\$22,502,995	\$0
Healthwest	\$53,002,111	\$53,002,111	\$0
Network 180	\$126,973,016	\$126,973,016	\$0
Ottawa CMH	\$33,420,935	\$33,420,935	\$0
West Michigan CMH	\$17,947,654	\$17,947,654	\$0
Beacon Health Options	\$9,192,161	\$9,192,161	\$0
LRE	\$2,712,179	\$2,712,179	\$0
ISF	\$2,000,543	\$0	\$2,000,543
Performance Withhold	\$1,667,119	\$1,667,119	\$0
Taxes and HRA	\$9,315,117	\$9,315,117	\$0
Total	\$278,733,830	\$276,733,287	\$2,000,543

Medicaid 1915 (i) waiver Healthy Michigan

Risk sharing arrangements between the LRE and participating CMHSPs will be followed similar to the 1915 (b)/ (c) waiver above. The LRE will monitor CMHSP Healthy Michigan revenues and expenditures monthly to assure financial stability.

The LRE's anticipated FY 2020 Healthy Michigan revenue and expense projections by CMHSP and PIHP are referenced in the table below.

<u>CMH/PIHP</u>	<u>FY20 Revenue</u>	<u>FY20 Expenses *</u>	<u>Variance</u>
Allegan CMH	\$1,773,355	\$1,773,355	\$0
Healthwest	\$4,344,186	\$4,344,186	\$0
Network 180	\$12,654,562	\$12,654,562	\$0
Ottawa CMH	\$2,946,366	\$2,946,366	\$0
West Michigan CMH	\$2,256,207	\$2,256,207	\$0
Beacon Health Options	\$975,488	\$975,488	\$0

LRE	\$287,821	\$287,821	\$0
ISF	\$212,301	\$0	\$212,301
Performance Withhold	\$176,918	\$176,918	\$0
Taxes and HRA	\$2,328,779	\$2,328,779	\$0
Total	\$27,955,982	\$27,743,681	\$212,301

Substance Abuse Prevention and Treatment Block Grant/PA2

Risk sharing arrangements between the LRE and participating CMHSPs have been developed according to the PIHP to CMHSP contract for the region. Monthly monitoring of the Substance Abuse Block and PA2 to assure CMHSP and LRE expenses fall within the revenues.

5. Investment Management

It is the business practice of the LRE to invest surplus funds in a manner which will provide the highest available investment return with reasonable and prudent security while meeting the daily cash flow objectives of the entity and conforming to all State statutes governing investment of public funds. Further information is provided on investment management in the Region Entity Investment Policy and ISF policy.

6. Supervision of External Audits, Internal Audits, and Internal Controls

Independent Annual Audit - The LRE and each participating CMHSP shall ensure the completion of an annual financial audit performed by an independent certified public accountant. A copy of the audit report, audited financial statements, footnotes and supplementary schedules, along with the management letter and management's response to the management letter, shall be submitted to the LRE within six months after the end of the fiscal year.

Compliance Examination - The LRE and each participating CMHSP shall ensure the completion of an annual compliance examination to be performed by an independent certified public accountant. The compliance examination is to assure conformity with specified contract requirements established by the LRE, MDHHS and other payers. A copy of the participating CMHSP compliance examination report and management's response thereto shall be submitted to the LRE within 30 days of its receipt.

Internal Audits – The LRE will perform internal audits on as needed basis

Internal Controls - The LRE shall maintain appropriate written policies and shall maintain the procedures necessary to carry out those policies, that ensure adequate internal controls in accordance with regulatory and contractual requirements and generally accepted accounting principles.

7. Claims Adjudication and Payment

Each CMHSP is responsible for maintaining a claims processing system/process for adjudication of all provider claims and services encounters. For consistency of policy, process and reporting, the LRE will provide oversight to assure that CMHSP systems meet standards associated with claims processing. LRE may adopt uniform policies and standards that will be used throughout the region by participating CMHSPs and other providers. CMHSPs are responsible for submitting all required demographic and encounter data as specified in the contract between MDHHS and the LRE. The PIHP/CMHSP contract addresses the timeliness and quality issues of encounters by instituting a process requiring 90% of encounters to be submitted within 60 days post service. Incentives and penalties will also be considered for FY2020.

8. Cost Allocation Process

The LRE will employ a payment methodology consistent with the LRE Operating Agreement. It shall be the policy of LRE that LRE and each of participating CMHSPs prepare a Cost Allocation Plan as an integral part of their annual budget process.