

## Lakeshore Regional Entity (LRE)

### Financial Risk Management Plan 2021

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 FY21 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 member 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 member 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 member community mental health services programs (CMHSP) 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 member CMHSPs. The LRE and member 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 member 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 its 7-county region. These services and supports for the regional service area will be provided or arranged for by the LRE, its member CMHSPs or others as agreed.

Specific provisions as they relate to member 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, LRE staff, and member CMHSPs 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 explored for adoption during FY21 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 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 member 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.

As with the current PIHP/Medicaid arrangement, the LRE will use its ISF to cover risk as indicated in 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 LRE Board.

For member 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 member CMHSPs.

The LRE will use innovative strategies and approaches to help administer services funded under this plan

On a quarterly basis the member 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 member CMHSPs shall establish mechanisms to assure that the local match of each member CMHSP is funded at the adequate level. Any member 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 contracted 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 member 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 member CMHSP. Member 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 member 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. 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 member 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 new programming and future service needs determined by the Oversight Policy Board.

#### Other Revenues

LRE Board considers recommendations from management for other contracts and thus revenues and expense allocation on a case by case basis. LRE Board may approve to allocate other contracts and revenues among member CMHSPs and the LRE based on a number of beneficiaries or other relevant statistics. The 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.

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 managed by the LRE.

## **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 member 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 member 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 CMHSP will get an updated projection from the LRE based on current revenues.

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 other available systems and resources to review authorizations and the potential expenses of those authorizations in ways 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 perform specific financial analytic functions across the region.

The LRE and each member CMHSP shall maintain an adequate level of working capital (current assets less current liabilities). Any issues or concerns regarding working capital levels at a member 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, along with MDHHS, would be solely responsible for valid Medicaid supports and services and any cost overruns at member CMHSPs or in the aggregate and is subject to mutual agreement between all parties including the MDHHS on all settlement terms and requirements. The region previously tried to buy reinsurance but there were no insurance companies offering that service. The LRE will explore this option again in FY21. As of October 1, 2020, after its FY20 audit and reconciliations are complete, the LRE anticipates having \$2,698,627 in its Medicaid/Healthy Michigan Plan ISF. This is approximately 0.75% of current year Medicaid/Healthy Michigan Plan budgets.

##### **In FY21, the LRE will focus on the following areas as risk management strategies:**

- Continue replenishing its ISF at a rate of 0.75% of revenue. This will amount to approximately \$2,584,965 being added to the regional ISF in FY21.
- Work closely with member CMHSPs and MDHHS to minimize pandemic related risks due to changes in service demand and the potential financial implications of such.
- Closely monitor regional encounter and Behavioral Health Treatment Episode Data Set (BH-TEDS) submissions to mitigate financial risks for the region.
- Implement performance metrics and timely reporting incentives to encourage improvements in areas with financial implications and/or penalties for the region.
- Pursue equitable waiver program slots and revenue for the region.
- Monitor waiver program payments and services to ensure adequate resources are received and to mitigate risks for potential recoupment.
- Continue discussions and negotiations with MDHHS and CMHSPs to explore solutions to settle all past liabilities.
- Earn Performance Incentive Bonus dollars of \$2,000,000 or more in FY21 to cover potential risks.

The total dollars available for risk management in FY2021, including ISF and performance bonus dollars, are expected to be \$7,283,592 assuming all prior liabilities have been met.

The LRE member CMHSPs will also 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 member CMHSPs.

As the LRE implements and maximizes all efforts to mitigate risk as outlined in its plan, it does not expect to have a local risk obligation in FY21.

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 member 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 addition, the LRE with the CMHSP members, are in negotiation with MDHHS on a settlement contract. If necessary, the LRE will submit an amended plan that captures any additional information relevant to this plan and its operations upon completion of settlement negotiations.

The LRE's anticipated FY 2021 Medicaid and Autism revenue and expense projections by CMHSP and PIHP are referenced in the table below.

<b>CMH/PIHP</b>	<b>FY 21 Revenue</b>	<b>FY 21 Expenses</b>	<b>Variance</b>
Allegan CMH	\$26,958,161	\$24,749,396	\$2,208,765
Healthwest	\$55,161,120	\$52,255,857	\$2,905,263
Network 180	\$148,680,791	\$141,231,871	\$7,448,920
Ottawa CMH	\$39,076,976	\$39,076,976	\$0
West Michigan CMH	\$19,829,762	\$20,018,945	(\$189,183)
Beacon Health Options	\$9,376,878	\$9,376,878	\$0
LRE	\$2,327,347	\$2,327,347	\$0
ISF	\$2,304,843	\$0	\$2,304,843
Regional Performance Withhold	\$3,374,050	\$3,374,050	\$0
MDHHS Performance Withhold	\$2,360,837	\$2,360,837	\$0
Taxes and HRA	\$10,286,070	\$10,286,070	\$0
Total	\$319,736,835	\$305,058,226	\$14,678,608

Currently in FY 2021, the initial plan is to reinvest any unspent revenue into the ISF and Savings for future years. These numbers could change based on actual expenses and revenues received.

#### Medicaid 1915 (i) waiver Healthy Michigan

Risk sharing arrangements between the LRE and member 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 2021 Healthy Michigan revenue and expense projections by CMHSP and PIHP are referenced in the table below.

<u>CMH/PIHP</u>	<u>FY 21 Revenue</u>	<u>FY 21 Expenses</u>	<u>Variance</u>
Allegan CMH	\$2,668,492	\$2,254,856	\$413,636
Healthwest	\$7,478,362	\$9,538,530	(\$2,060,168)
Network 180	\$17,573,675	\$17,005,292	\$568,384
Ottawa CMH	\$4,575,317	\$4,575,317	\$0
West Michigan CMH	\$2,684,990	\$2,495,808	\$189,182
Beacon Health Options	\$1,201,229	\$1,201,229	\$0
LRE	\$320,635	\$320,635	\$0
ISF	\$280,122	\$0	\$280,122
Regional Performance Withhold	\$466,870	\$466,870	\$0
Taxes and HRA	\$2,571,517	\$2,571,517	\$0
Total	\$39,821,210	\$40,430,054	(\$608,844)

Funds from savings or ISF will be used to cover shortages in the Healthy Michigan program. These number could change based on actual expenses and revenues received.

#### Substance Abuse Prevention and Treatment Block Grant/PA2

Risk sharing arrangements between the LRE and member CMHSPs have been developed according to the PIHP to CMHSP contract for the region. The LRE will conduct 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 member 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 member 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 member 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 member 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 implemented for FY2021.

## **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 member CMHSPs prepare a Cost Allocation Plan as an integral part of their annual budget process.