POLICY TITLE:	FINANCIAL MANAGEMENT	POLICY # 2.0	REVIEW DATES	
Topic Area:	**FINANCIAL MANAGEMENT**	**ISSUED BY:** Chief Executive Officer	1/21/13	1/1/15
Applies to:	LRE, all member CMHSPs, and all Providers		1/28/25	1/9/2026
Developed and Maintained by:	LRE Chief Financial Officer and Finance ROAT	**APPROVED BY:** Chief Executive Officer		
Supersedes:	N/A	**Effective Date:** 1/1/2014	**Revised Date:** 1/9/2026	

I. PURPOSE

To state the common policies of the Lakeshore Regional Entity (LRE) and its Member CMHSP's (members), to create consistency in revenue projections reported internally and externally between LRE and all Member CMHSPs, and to define related policies and processes to work in good faith regionally toward mutually agreed upon standards.

II. POLICY

Lakeshore Regional Entity (LRE) shall ensure accurate and consistent financial systems, financial data reporting and risk management. All LRE financial practices shall comply with requirements established by federal and state laws and contracts (including, but not limited to, the Medicaid, Substance Use Disorder, and grant contracts approved by the board), and the Medicaid Provider Manual.

Under each major category, the bracketed descriptions indicate the financial administrative functions covered.

A. <u>INTERNAL CONTROLS AND AUDITS</u> [Supervision of audit and financial consulting relationships] [Audits]

1. <u>Written Policies & Procedures</u>.
   i. LRE and its members shall maintain appropriate written detailed finance policies and each member shall maintain the procedures necessary to carry out those policies.
   ii. Members shall maintain the appropriate written internal policies and procedures that ensure adequate internal controls in accordance with the pronouncements of the Government Accounting Standards Board.
2. <u>Independent Annual Audit</u>. LRE and each of its members shall obtain an independent financial audit annually which will clearly indicate the operating results for the reporting period and the financial position at the end of the fiscal year. A copy of the audit report, any management letter, and the member's response to the management letter (when applicable), shall be submitted to LRE within 6 months after the end of the fiscal year. A copy of the audit report shall be filed with the Michigan State

Treasurer and the Michigan Department of Health and Human Services (MDHHS) within the timelines established by the State of Michigan

3. Compliance Examination. If required by the MDHHS contract, LRE and its members shall obtain an independent compliance examination annually. The examiner will issue an opinion as to whether the examined organization has complied, in all material respects, with the specified requirements described in MDHHS's Compliance Examination Guidelines. A copy of the compliance report shall be submitted to LRE.
4. Plan of Correction. In the event that the audit firm issues a qualified opinion on the financial audit or the compliance examination, or identifies any deficiencies, significant deficiencies, or material weaknesses in internal controls, the member shall develop a plan of correction.
    i. The plan of correction shall be submitted to LRE. Any needed corrections shall be implemented timely.
    ii. In the event a member receives a management letter from the auditor noting deficiencies the member shall prepare a written response to the management letter and submit a copy to LRE.

B. ANNUAL BUDGETS [Budgeting, general accounting and financial reporting]

1. Consistent with Michigan Complied Law (MCL) Section 141.412, LRE and members shall hold a public hearing on its proposed budget. Notice of the hearing shall be by publication in a newspaper of general circulation within the local unit at least 6 days before the hearing. The notice shall include the time and place of the hearing and shall state the place where a copy of the budget is available for public inspection.
2. The annual budget must be presented to the appropriate board for approval prior to the beginning of the fiscal year. Amendments to the budget must be presented to the appropriate board for approval prior to expenditures being made and prior to year-end.

C. INTEGRATION OF FINANCIAL & SERVICE DATA [Revenue analysis] [Expense monitoring and management] [Service unit and recipient centered cost analysis]

1. Financial staff shall utilize monthly financial statements to project revenue and expenditures and to identify financial trends and potential budgetary concerns.
2. Financial and service data integration shall be used to:
    i. Project revenue and expenditures.
    ii. Project utilization of high risk/high-cost services (i.e. inpatient, residential, and community living supports, etc.).
    iii. Develop service unit costs and trending utilization patterns.
    iv. Determine Medicaid eligibility through an interface with the State Medicaid Data Exchange Gateway (DEG) eligibility files; generate reports to identify Medicaid services and the related cost of those services.
    v. Identify service costs that are not Medicaid eligible due to spend-downs, etc.
    vi. Provide data for the allocation of administrative overhead cost.
    vii. Provide financial and service data to the MDHHS utilizing state formats.

viii. Review Medicaid and local match requirements against projected availability of local revenues to identify potential local match problems.

3. LRE and all member CMHSPs are to use the official membership and revenue projections provided by LRE on all reporting.
4. Revenue projections will be drafted on a quarterly basis or more frequently, as necessary to reflect MDHHS capitation rate amendments or significant changes in assumptions. Published projections will be considered final after Finance ROAT's review and upon resolving any disputes. The final revenue projections are to be used on all reports going forward for the period.
5. Resolution of discrepancies and/or disputes will be handled as follows:
   i. Within five (5) business days of each revenue projection being provided each member has the ability to dispute the projection and provide support and documentation for their position.
   ii. LRE and member CMHSP will work in good faith to come to a mutually agreed upon projection using the aforementioned resources, data points, and trends within five (5) days after receiving the dispute.
   iii. If mutual agreement is not reached, the LRE projection will prevail as the projection to be used for all internal and external reports.
6. Revenue projections will be updated as follows:
   i. Revenue projections will be updated quarterly based on past months capitation payments along with all other available and aforementioned information.
   ii. If the actual revenues exceed the projected payments and enrollments in any particular month, the projection will be replaced with actual figures and any appropriate adjustments will be made to the projections for the following period.
   iii. Any applicable changes to distribution models will be made in the period they apply and future periods will be adjusted accordingly.

D. FINANCIAL MANAGEMENT REPORTS

1. Financial statements of all members shall be generated and published monthly and distributed as appropriate to the respective board of directors and administrative management staff.
2. Members shall identify and establish internal financial reports necessary for the early identification of potential problem areas. Financial reports that shall be provided to LRE include, but are not limited to, the following:
   i. Financial Reports – Each member shall provide to LRE year-to-date and projected annual savings (deficit) for Medicaid, general fund, and local match each month beginning with January. This report shall be issued and transmitted to LRE based on the schedule developed by the regional finance committee.
   ii. State Reporting. Each member shall provide to LRE all financial and data reporting required as part of the operating agreement between LRE and members.
   iii. All information and data shall be provided to LRE by a mutually agreed upon electronic format that will allow the efficient incorporation of the member information into the regional reporting.

iv. Financial reports that shall be provided to the members include, but are not limited to, the following:
   a. DEG Reports. LRE shall download monthly DEG data taken from the State's Medicaid information system and subsequently download that data to each member. This download to each member shall occur within 7 working days of the data being available to LRE.
   b. LRE shall issue monthly reports that provide analysis of trends relative to Medicaid eligibility. At a minimum, the reports shall include a projection of Medicaid capitation payments for the fiscal year as well as other information necessary for the risk management of the regional capitation obligation.

E. SUB-CAPITATION PAYMENT DISTRIBUTION METHODOLOGY

LRE shall distribute the regional Medicaid capitation payments consistent with the operating agreement.

F. PROVIDER CLAIMS [Claims adjudication and payment]

1. Members shall establish mechanisms that assure timely receipt of provider claims.
2. At a minimum, the provider claim process shall mandate that:
   i. A claim submitted more than 90 days following the end of the calendar month in which the service was rendered may not be paid. All claims that have not met the clean claim criteria within 1 year from date of service may not be paid.
   ii. A clean claim is one that can be processed without obtaining additional information from the provider of the service or a third party. It does not include a claim from a provider who is under investigation for fraud or abuse, or a claim under review for medical necessity.
   iii. Members shall ensure that providers are paid for clean claims within 30 days of receipt of the claim. As a benchmark, all members shall collect and monitor data that assures 90% of all claims are processed within 30 days of receipt, and 99% are processed within 90 days of receipt.

G. THIRD PARTY REVENUES

Members shall establish mechanisms to assure that all private-pay and third party payers are billed for covered services. Each member shall establish fee policies and procedures.

H. MDHHS UNIFORM BILLING & ELECTRONIC CLAIMS

Members shall implement the MDHHS Uniform Billing mandates including the ability to accept electronic submissions.

I. LOCAL MATCH OBLIGATION

The State of Michigan's appropriation act permits a contribution from internal resources. Local funds shall be used as a bona fide part of the state match required under the Medicaid program in order to increase capitation payments.

1. Local Match Submission. Members shall submit local funds as a bona fide source of match for Medicaid to LRE on a quarterly basis. These payments shall be made in a reasonable timeframe to allow LRE to process the local match payment to the State in accordance with the MDHHS payment schedule.
2. Local Match Monitoring. LRE and its members shall establish mechanisms to assure that the local match of each member is funded and monitored no less than quarterly to assure adequacy of funding.
3. Responsibility to Notify. Any member that projects a problem or issue with local match funding shall immediately notify the LRE CFO. A plan of correction shall be completed and sent to the LRE CFO within 10 business days of the identification of the problem.

J. PIHP MANAGED CARE ADMINISTRATIVE COSTS

1. According to the MDHHS guidelines for "Establishing Administrative Costs Within and Across the CMHSP System", LRE and its members shall identify the administrative activities associated with each of the identified managed care administrative functions.
2. The identified activities shall be recognized as either being centralized at the RE or delegated to a member following 42 CFR: 438.230, Subcontractual Relationships and Delegation. For those activities that LRE has delegated to a member, the agreed-upon estimated Medicaid costs associated with those delegated activities shall be considered LRE administration in the State reports.
3. The administrative activities, delegation assignment, and associated costs shall be reviewed and updated at least annually.

K. FINANCIAL RISK [Risk analysis, risk modeling and underwriting] [Insurance, re-insurance and management of risk pools]

1. In keeping with MDHHS requirements, it shall be the policy of LRE to establish an internal service fund risk reserve for the potential of future liability. This fund will contribute to the overall financial planning and stability of LRE in the capitated risk funded environment.
2. The maximum risk exposure for LRE under the MDHHS contract is 7.5% of applicable funding. The operating agreement shall contain details for funding and management of the ISF.
3. The Risk Management Strategy submitted to MDHHS per the contract shall detail LRE's short term strategy.

L. INSURANCE COVERAGE [Insurance, re-insurance and management of risk pools]

LRE and each Member CMHSP shall maintain mandated or otherwise mutually determined levels of insurance coverage

M. REGIONAL FINANCE COMMITTEE

The regional finance committee shall include the LRE CFO, the CFO from each member, LRE financial staff, and member finance staff identified by member CFOs. It is the intent of LRE and members that changes and improvements in process shall be discussed at these committee meetings. The committee shall meet at least quarterly.

N. LRE SPECIFIC

1. LRE is a separate local unit of government and as such shall be responsible for setting up and maintaining a separate accounting system capable of providing to its board, members and independent auditors complete accounting information including, but not limited to, general ledger, accounts payable, budgeting, and financial reporting.
2. LRE shall be responsible for supervision of an annual audit, submission of required reports to various state and federal agencies, and obtaining financial consulting services, on an as needed basis.

O. MONITORING OF MEDICAID ELIGIBILITY

1. Services shall be provided to priority population individuals who meet service eligibility criteria. Services shall be provided using person centered planning principles and according to need, regardless of payment source or whether the service is a covered service.
2. Clinicians, case managers, support coordinators and support personnel shall be trained in benefits advocacy and shall be involved in assisting consumers in maintaining Medicaid eligibility and other benefits whenever possible.
3. Members shall establish appropriate mechanisms to ensure that Medicaid funds are used only when the consumer is eligible for Medicaid covered services.

III. APPLICABILITY AND RESPONSIBILITY

This policy applies to LRE and the member CMHSP's. It is the separate responsibility of each organization to comply with the policy.

Financial activities shall be in accordance with all applicable rules, regulations, federal and state guidelines as may apply, to ensure the financial stability of LRE and its members.

IV. MONITORING AND REVIEW

LRE shall review the financial management policy as necessary to maintain an adequate and acceptable level of financial management for all prepaid inpatient health plan activities. LRE shall also review all submitted reporting and periodically review each member's board materials for compliance.

V. DEFINITIONS

A. MDHHS: Michigan Department of Health and Human Services
B. PIHP: Prepaid Inpatient Health Plan

VI. REFERENCES AND SUPPORTING DOCUMENTS

A. MDHHS Medicaid Specialty Supports and Services Contract
B. Michigan Complied Law (MCL) Section 141.412
C. MI Medicaid Provider Manual

VII. RELATED POLICIES AND PROCEDURES

A. LRE Financial Policies and Procedures
B. LRE Corporate Compliance Plan
C. LRE Quality Policies and Procedures

VIII. CHANGE LOG

Date of Change	Description of Change	Responsible Party
12/2/2025	Reformatted to new policy template style Language additions/ changes in Integration of Financial and Service Data section, changing revenue projections from monthly to quarterly, Definitions, References and Supporting Documents, and Related Policies and Procedures	Chief Financial Officer