

PROCEDURE # 2.6a	EFFECTIVE DATE	REVISED DATE
TITLE: ESTABLISHING AN INTERNAL SERVICE FUND	May 18, 2017	
<u>ATTACHMENT TO</u>	REVIEW DATES	
POLICY #: 2.6	3/3/2020	
POLICY TITLE: ESTABLISHING AN INTERNAL SERVICE FUND		
CHAPTER: FINANCIAL MANAGEMENT		

I. PROCEDURES

- A. As an integral part of risk management planning, the PIHP shall determine the necessity and the optimal funding amounts for an ISF, with the input and analysis provided by the LRE Finance ROAT.
- B. The ISF shall be maintained by the PIHP in accordance with the LRE Investment Policy and in compliance with MDHHS/PIHP Services and Supports Contract with the Michigan Department of Health and Human Services consistent with the following criteria:
 1. Contributions to the ISF shall retain their character as state funds in accordance with the Mental Health Code
 2. Funds used to finance the ISF shall not be used as local funds or used to match federal cost sharing.
 3. ISF funds will be invested in accordance with the LRE Investment Policy.
 4. Interest earnings from the investment of ISF funds shall be used to fund the risk reserve and shall be maintained in the fund.
- C. LRE shall determine at least annually the optimum ISF funding level using the following criteria:
 1. The expected risk based on historical costs experience or reasonable cost assumptions.
 2. The funds contributed to the ISF determined in compliance with reserve requirements as defined by GAAP and applicable federal and state provisions, as stated in the MDHHS Services and Supports Contract.
 3. Charges allocated to the various programs/cost categories based on the relative proportion of the total contractual obligation.
- D. LRE shall review the costs charged against the ISF using the following criteria:
 1. Costs are restricted to the defined purpose of the ISF and no expenses can be charged to these funds
 2. The proper share of the risk corridor is charged to the ISF
- E. LRE shall review the total funding level of the ISF to ensure that:

1. If the ISF becomes over-funded, it shall be reduced within one fiscal year through the abatement of current charges.
2. If abatements are inadequate to reduce the ISF to the appropriate level, it shall be reduced through refunds in accordance with OMB Circular 2 CFR 200 Subpart E Cost Principles.
3. Upon dissolution of the ISF, any funds remaining in the ISF after all its claims and related liabilities have been liquidated shall be refunded pursuant to OMB Circular 2 CFR 200 Subpart E Cost Principles.

II. REFERENCES/SUPPORTING DOCUMENTS

- A. LRE Policy 2.6 – Establishing an Internal Service Fund