NORTHERN MICHIGAN REGIONAL ENTITY
ADMINISTRATIVE MANUAL

POLICY NAME: **BUDGETING AND MONITORING PROCEDURE**
CHAPTER: **EIGHT – FINANCE**
POLICY #: **08-02-004**
EFFECTIVE DATE: **June 19, 2014**

PURPOSE
The purpose of this procedure is: to describe the methodology by which the PIHP will make straight capitated payments to Members, to identify the conditions for using Medicaid Savings and/or ISF to ensure benefit stabilization throughout the Affiliation, and to outline the steps that the PIHP and Members will take to ensure fiscal stewardship across the Affiliation.

APPLICATION
This Procedure applies to all CMHSP Members of the Northern Michigan Regional Entity.

PROCEDURE
Budget Development, Approval and Monitoring

GUIDING PRINCIPLES

Each process in this procedure takes into account the commitment by Northern Michigan Regional Entity, and its Member CMHSPs to adhere to the following principles:

- Autonomy is retained by each CMHSP within uniform standards and statutory and regulatory requirements.
- The PIHP will confirm that each CMHSP demonstrates financial stewardship through the use of a transparent system of on-going reporting, including reviews of actual to projected Medicaid expenditures, including projected lapse.
- The PIHP will ensure that it maintains a sufficient Risk Reserve.
- The PIHP is responsible for ensuring that Medicaid recipients, within the PIHP region, have access to medically necessary Medicaid services as indicated in 42 CFR Sec. 438.206
- All current year Medicaid revenues and Medicaid savings as well as the Medicaid ISF must be projected to be spent before State General Funds (GF) are used to cover the costs of Medicaid services.

I. STANDARDS:

42 CFR Sec. 438.206 Availability of services:

(a) Basic rule. Each State must ensure that all services covered under the State plan are available and accessible to enrollees of MCOs, PIHPs, and PAHPs.

(b) Delivery network. The State must ensure, through its contracts, that each MCO, and each PIHP and PAHP consistent with the scope of the PIHP's or PAHP's contracted services, meets the following requirements:

- Maintains and monitors a network of appropriate providers that is supported by written agreements and is sufficient to provide adequate access to all services covered under the contract.

In establishing and maintaining the network, each MCO, PIHP, and PAHP must consider the following:

i. The anticipated Medicaid enrollment.
ii. The expected utilization of services, taking into consideration the characteristics and health care needs of specific Medicaid populations represented in the particular MCO, PIHP, and PAHP.

II. DEFINITION(S): (if applicable)

A. Member:
Any of the Community Mental Health Boards that created the Northern Michigan Regional Entity pursuant to Section 330.1204(b) of the Mental Health Code.

B. Spending plan:
General description of revenues and expenditures as it relates to Medicaid expenditures approved by the PIHP.

C. Budget:
Formal document of expenditures and revenues approved by a CMHSP Board of Directors that includes all funding streams and expenditures.

D. ISF:
Internal Service Fund: Medicaid funds held by the PIHP for the benefit of the NMRE for use on Medicaid related risk.

III. PROCEDURE(S)

A. Affiliation spending plan preparation:

1. Prior to June of each year, the NMRE Finance Committee shall develop the budget assumptions to form the basis for the budget development process for the coming year. These assumptions will be documented in Attachment A. The assumptions will be approved by the Operations Committee prior to the budget development process.
2. Prior to June 20th of each fiscal year, the PIHP will issue projected estimates for Medicaid funding for the upcoming fiscal year based on the PIHP's best estimates of Medicaid revenue for the coming year. This information will be presented to each CMHSP in the form of projected funding exhibits that include estimated straight capitation payments, proposed spending targets and projected PIHP administrative expenditures to reflect net Medicaid for the coming year for each Member.
3. Individual CMHSPs project the coming fiscal year's expenditures against estimated spending targets. Proposed expenditures should be determined using the same set of variables for all Members. At a minimum, these variables should include those listed in Attachment A. Where possible, Members should use as close to actual projected expenditures and increases based upon their individual experiences and history. The

balanced spending plan should detail any planned program expansions or contractions that are included in the plan.

a. The rate of the economic increases to staff, fringe benefit costs, contractors, utilities and all other increases over costs incurred in the current year must be explicitly stated as part of each Member's spending plan submission to the PIHP. This spending plan must also use the methods outlined in the "Use, Allocation and Reporting of Medicaid Revenues and Expenses" section provided later in this document.
b. The CMHSPs will submit to the PIHP the coming fiscal year's balanced spending plan no later than July 15th. This spending plan may be submitted to the PIHP prior to individual CMHSP Board approval of a formal budget. All CMHSP Spending Plans will be reviewed by the NMRE Finance Committee during the first week of August. The recommendations of the Finance Committee will be forwarded to the NMRE Operations Committee for its August meeting. The PIHP will notify the CMHSP of their approval or disapproval of the plan no later than August 31st. The PIHP may disapprove a spending plan only if the plan does not meet Medicaid rules and regulations or is not consistent with the assumptions detailed in Attachment A.
c. If a spending plan submitted by a Member includes plans for service expansion or operations strengthening initiatives, these plans must be described in narrative which accompanies the plan. These uses must meet Medicaid standards. The PIHP's review and approval of the Member's coming fiscal year's balanced spending plan will also include the review and approval of these expansion and strengthening initiatives.
d. A Member with a projected deficit shall submit a spending plan with the assumption that no additional Medicaid funds are forthcoming. In such cases, the balanced spending plan, and the accompanying narrative may include contraction of services, change in practices, or use of the Member's fund balance. A plan that reduces services to consumers shall also include program details, timelines, as well as an analysis of the potential impact to consumers. The PIHP's review and approval of the Member's coming fiscal year's balanced spending plan will also include the review and approval of these contraction, change in practices, use of fund balance initiatives.
e. If the PIHP determines that additional funds are available, either through rebasing, excess Medicaid savings, or lapse from another Member, it will allocate those funds, at its discretion, to strengthen the Medicaid services array available within the individual CMHSP, or across the Affiliation and notify the Members impacted by the adjustment. The Member will then submit a new spending plan that balances.

B. Spending Plan Monitoring:

1. Quarterly projections of variances for each Member are reviewed by the PIHP and the CMHSP using a financial report format developed by the NMRE Finance Committee (which is based on actual ledger balances) and additional information, in writing, from each Member CMHSP. The NMRE Finance Committee will meet to resolve any discrepancies relative to the projected variances.
2. Based on the discussion, above, and other information, the PIHP estimates the projected lapse for each CMHSP, if any. Each Member that projects a lapse is due its full payment up to the planned payment amount for their counties. Actual lapse will be re-directed at the time of cost-settlement by the PIHP, if necessary. The PIHP will allocate

those funds, at its discretion, to strengthen the Medicaid services array available within the individual CMHSP, or across the PIHP region. The timing of the redistribution of lapse may be adjusted by the PIHP as cash-flow issues, on the part of the Member receiving redirected funds, necessitate.

3. The PIHP will utilize a process of its own design to distribute, via contract amendment, excess funds.
4. The PIHP will use, as the primary tools for spending plan monitoring, the 1st, 2nd and 3rd quarter financial reports noted in 1 above. Additional supporting documents may be provided or requested.
5. If revenue or expense problems are noted, the following steps will be taken:
    a. The NMRE Finance Committee will review the financial information provided. If problems are noted, the CMHSP will submit a plan for correcting the problem to the NMRE CFO. If the planned actions of the CMHSP are reasonably expected to resolve the potential over expenditure, the NMRE CFO will inform the CMHSP that the plan is accepted.
    b. If the plan submitted by the CMHSP is not anticipated to adequately address the over expenditure, the NMRE CFO will forward the plan to the NMRE CEO. The CEO will address the situation with the Operations Committee.
    c. The CMHSP will have the opportunity to defend the plan submitted, or present a revised plan to the Operations Committee. If the Operations Committee agrees tha that the planned activities will resolve the anticipated over expenditure, the CMHSP will implement that plan.
    d. If the Operations Committee cannot reach agreement with the CMSHP as to a resolution to the potential over expenditure, the matter will be referred to the NMRE Board by the NMRE CEO.
6. Timelines for budget analysis for current fiscal year include:
    a. The end of the month following the quarter (January, April, July, and October) each CMHSP will provide the PIHP with a year to date financial report comparing actual to budgeted revenue and expenditure. The Finance Committee will meet the following month to review the information.
    b. September close out information will be provided, by each CMHSP, to the NMRE January 31. Medicaid Savings balance will be determined after cost settlement of prior year activity is completed and establish target Medicaid savings balance for current fiscal year.
    c. March – Finance Committee and Operations Committee joint meeting to review prior year (year end) and 1st quarter summary analysis of items contained in B4 above. Revise, if needed, Medicaid Savings balance estimates.
    d. April – Documents from B4 above, for 2nd quarter, due to PIHP from CMHSP.
    e. May – Finance Committee meeting to review 2nd quarter summary analysis of items contained in B4 above. Revise, if needed, Medicaid Savings balance estimate. This savings estimate will also be used to determine the amount of savings available for use in balancing the coming year's budget. Finance Committee will develop recommendations for Attachment A relative to budget development assumptions for next year.
    f. July – Documents for B4 above, for 34d quarter, due to PIHP from CMHSP.
    g. August – Finance Committee meeting to review 3rd quarter summary analysis of items contained in B4 above. Revise, if needed, Medicaid Savings balance estimate.

h. November – Documents for B4, above, for 4th quarter (preliminary year-end) due to PIHP from CMHSP by November 10.
i. November – Review Medicaid Savings balance, after preliminary cost settlement of current year activity is completed, to determine Medicaid availability for CMHSPs with a deficit.

7. Addressing Use of Medicaid Savings, Excess Current Medicaid and the Internal Service Fund:
   a. Members must notify the PIHP, both verbally and in writing, as soon as a projected deficit in Medicaid funding is anticipated. This should be in addition to quarterly monitoring through the financial reporting and other mechanisms. Members who anticipate a Medicaid funding deficiency shall comply with the requirements of the PIHP including but not limited to changes in clinical and administrative practices, staffing patterns, as well as program and administrative structures.
   b. Members that overspend their funding allocation will receive the additional funds required after cost-settlement if they are available system wide or in the Medicaid Savings or ISF. During the fiscal year, the PIHP will monitor and ensure fiscal restraint by all Members, including the PIHP. In this regard the PIHP will take all necessary steps to ensure that the spending of each Member remains within the balanced spending plan developed by the Member and approved by the PIHP. These steps may include requiring a Member who is projecting an over-expenditure of the balanced spending plan to change clinical and administrative practices, staffing patterns, as well as program and administrative structures.
   c. A plan for addressing the causes of over-expenditure, in the subsequent fiscal year, must be submitted by the Member. Both the revised spending plan for the recently closed out fiscal year and the plan for addressing the causes of over- expenditure must be approved by the PIHP.
   d. A Member with projected excess Medicaid funding, in the current fiscal year, or with excess Medicaid funding in the recently closed fiscal year, as determined after cost settlement, can propose via a Medicaid Savings Reinvestment plan provided to the PIHP for the use of some or all of these excess funds for use, by the Member projecting or recording the excess Medicaid funds, in the subsequent fiscal year. The Reinvestment Plan must be submitted to the PIHP no later than October 31st of the fiscal year that the plan is intended to be implemented.

      The Reinvestment Plan must include, at a minimum, the following information:
      - How the plan will provide for the restoration or expansion of Medicaid Services within the CMHSP's geographic region.
      - How the Medicaid Services will be sustained during subsequent fiscal years. (Plans that contain effective sustainability beyond the period of the plan, will be given priority)
      - Timeframes for implementing the elements of the plan that will start no later than the start of the 2nd quarter of the current fiscal year.

      The PIHP will approve or disapprove of this Medicaid Savings Reinvestment plan, at its discretion, after considering any of a number of variables and principles, including: the specificity of the plans, including proposed uses and timeframes (the more specific, the better able the PIHP is to determine the value of the plans); the

value of the requesting Member's plans, relative to other potential uses for these Medicaid funds, in the current or coming fiscal year; the assurance that the generation of these excess funds is not the result of unmet Medicaid need within the region served by the Member generating the funds; and the amount of excess funds reflected in the Reinvestment Plan, in relation to the annual Medicaid revenue of the Member projecting or generating these excess funds. The PIHP will provide a response (either approving the plan, requesting additional information, or denying the plan) to the submitting CMHSP no later than November 15th of the fiscal year the plan is submitted for.

If approved, the use of these funds in an Reinvestment Plan will be reported, by the Member, and monitored, by the PIHP, in the same manner as all other Medicaid expenditures, as described in this document. If the funds addressed in the Medicaid Savings Reinvestment Plan are not used for the purpose outlined in the plan, including adherence to timeframes, the PIHP reserves the right to withdraw approval of the plans and reallocate all or a portion of the Medicaid funds delineated in the plans, from the Member which submitted the plan, to other uses and Members within the region.

e. For each fiscal year, the Members will submit the required documents to the PIHP for financial reconciliation. The PIHP will send cost settlement letters to each Member no later than March 10th. Any amount due to the PIHP will be paid by March 12th, and any amount due to a Member CMHSP as a final financial cost settlement shall be paid by March 15th.

C. Use, Allocation and Reporting of Medicaid Revenues and Expenses:

1. *Allocation of costs to Medicaid*: For the purpose of allocating the cost of services among funding sources, all Members will use a process that includes the following components:
   a. Encounter based
   b. Weighted to account for the differences in time and/or cost of procedure codes reported within the encounter data system
   c. Allocation of expenditures to funding sources other than Medicaid when the cost of services for Medicaid consumers are not Medicaid eligible
2. *Use of full accrual*: Each Member must use full accrual accounting in the completion of the FSRs which are submitted to the PIHP.
3. *Withdrawal from and contribution to reserve accounts/ISFs:* For the purpose of charging or crediting costs associated with a reserve account or internal service fund to current year Medicaid the following guidelines will be followed:
   a. In no case will the amount charged to Medicaid be in excess of actual costs incurred unless supported by a certified actuarial analysis
   b. All allocation methods and calculations must be compliant with Circular A-87.

4 *Increased costs incurred, via management decisions*: Before implementing changes that will incur greater Medicaid costs, the management of the Member considering such changes must review those changes with the PIHP. Those changes would include increases in staffing levels as well as increases in staff salaries not contained in the original proposed spending plan. The purpose of such a review is to ensure that the Medicaid funds to be used for such increases are not needed by other Members to meet

the needs of Medicaid recipients. In most cases, those Members making such changes which do not result in use of Medicaid funds in excess of the Member's straight capitation payments will be given broader discretion than those Members whose proposals would cause them to spend above their straight capitation payments.

IV. MONITOR AND REVIEW:

The NMRE CEO and CFO will monitor these functions. The NMRE CEO and CFO will review this policy annually. If any changes are to be considered, the procedure will be reviewed with the NMRE Finance Committee. External review will include MDCH and CMS site visits and annual financial audits.

REFERENCE

REVISED:

REVIEWED:

APPROVED: **June 19, 2014**

Signed copy is on file with NMRE

Dave Schneider
Northern Michigan Regional Entity Chief Executive Officer

Date