



POLICY AND PROCEDURE MANUAL

SUBJECT Internal Service Fund	ACCOUNTABILITY	Effective Date: October 1, 2025	Pages: 2
REQUIRED BY	Managed Care Rule: PIHP Contract Section: Other: OMB Circular 2 CFR 200 Subpart (E) Cost Principles; Mental Health Code,	Last Review Date:	Past Review Date:
Policy: ☒ Procedure: ☐	Review Cycle: Annual Author: NMRE CFO	Responsible Department: Finance	Reviewers: NMRE CEO

Definitions

Generally Accepted Accounting Principles (GAAP): A set of rules that encompass the details, complexities, and legalities of business and corporate accounting.

Internal Service Fund (ISF): Risk reserve funds that can be used by the PIHP to cover Medicaid and Healthy Michigan Plan risk corridor financing, if necessary, per the shard risk contract with the Michigan Department of Health and Human Services (MDHHS).

Michigan Department of Health and Human Services (MDHHS): The principal department of the state of Michigan, headquartered in Lansing, that provides public assistance, child and family welfare services, and oversees health policy and management.

Northern Michigan Regional Entity (NMRE): The PIHP for Region 2, the 21-counties located in Michigan's northern lower peninsula.

Office of Management and Budget (OMB): The business division of the Executive Office of the President of the United States that administers the United States federal budget and oversees the performance of federal agencies.

Prepaid Inpatient Health Plan (PIHP): One of ten organizations in Michigan responsible for managing Medicaid services related to behavioral health, development disabilities, and substance use.

Purpose

The Northern Michigan Regional Entity (NMRE) will establish an internal service fund (ISF) as a method for securing funds as part of the region-wide strategy for managing Medicaid risk exposure under the

MDHHS-PIHP Contract. ISF funds will be maintained at a level that sufficiently covers the projected overall risk of the PHIP, yet ensures maximum funds are directed to consumer services.

Policy

- A. As an integral part of risk management planning, the NMRE will determine the necessity and the optimal funding amounts for an ISF, with the input and analysis provided by the NMRE Regional Finance Committee.
- B. The ISF will be maintained by the NMRE in compliance with the MDHHS-PIHP Contract with the following criteria:
 - 1. Contributions to the ISF will retain their character as state funds in accordance with the Mental Health Code. MDHHS allows for Medicaid and Healthy Michigan Plan (HMP) reserves to be used interchangeably to cover cost overruns in both funding streams. The use of funds to cover cost overruns assumes the funding stream in question exhausted its reserves prior to the redirection.
 - 2. Funds used to finance the ISF will not be used as local funds or used to match federal cost sharing.
 - 3. Interest earnings from the investment of ISF funds will be used to fund the risk reserve and will be maintained in the fund.
- C. The NMRE will review 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.
- D. The NMRE will review the total funding level of the ISF to ensure that:
 - 1. If the ISF becomes over-funded, it will 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 will 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 of its claims and related liabilities have been liquidated will be refunded pursuant to OMB Circular 2 CFR 200 Subpart (E) Cost Principles.

Approval Signature



NMRE Chief Executive Officer

October 1, 2025

Date