

EXECUTIVE DIGEST

CERTIFICATE OF NEED PROGRAM

INTRODUCTION

This report, issued in April 2002, contains the results of our performance audit* of the Certificate of Need (CON) Program, CON Commission, Department of Community Health (DCH).

AUDIT PURPOSE

This performance audit was conducted in response to a legislative request and as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are typically conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

DCH administers the CON Program, which was originally established in Michigan by Act 256, P.A. 1972. The CON Program is intended to regulate the health care industry in Michigan by balancing cost, quality, and access issues and ensuring that only needed health care services are developed.

The CON Commission was created within the Department of Public Health (DPH) by Act 332, P.A. 1988 (the CON Reform Act of 1988). Executive Order No. 1996-1, effective April 1, 1996, created the Department of Community Health and transferred duties and responsibilities for the CON Program from DPH to DCH. The CON Commission, which consists of five members appointed by the Governor with the advice and consent of

the Senate, is responsible for developing proposed CON review standards and proposing modifications in the statutory list of covered medical services. CON Commission actions to propose changes in CON review standards and in the statutory list of covered medical services are first subject to comment by the Legislature's health committees, and then any final standards are subject to ultimate veto by either the Legislature or the Governor. DCH provides administrative support to the CON Commission and carries out the day-to-day operations of the CON Program. This includes approving, disapproving, or approving with conditions or stipulations CON applications consistent with the review standards.

During fiscal year 2000-01, DCH reported expenditures totaling approximately \$1.4 million. As of September 30, 2001, the CON Program had 10 permanent, full-time employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess DCH's efforts to evaluate the performance of the CON Program in relation to the CON Program's goals* and objectives*.

Conclusion: We concluded that DCH's efforts to evaluate the performance of the CON Program in relation to the CON Program's goals and objectives were generally not effective. Our audit disclosed one material condition*:

- DCH, in conjunction with the CON Commission, had not evaluated the CON Program in order to determine whether the CON Program was achieving its goal of balancing cost, quality, and access issues and ensuring that only needed services are developed in Michigan (Finding 1).

DCH agrees with the corresponding recommendation and, in consultation with the CON Commission, will enhance existing processes in order to determine whether the CON Program is achieving its goal of balancing cost, quality, and access issues and ensuring that only needed services are developed in Michigan.

DCH will contract with an independent outside contractor to conduct a comprehensive evaluation of the CON Program. This study will assist DCH in determining more meaningful, quantifiable measures for assessing the CON Program. These measures will be incorporated in future iterations of the CON Program Annual Activity Report. Moreover, this comprehensive evaluation will assist the CON Commission in making recommendations to the Senate and House of Representatives committees regarding the CON Program, as required in Section 333.22215(1)(f) of the *Michigan Compiled Laws*.

The CON Commission agrees with the corresponding recommendation and believes that the lack of the statutorily required information from DCH staff on CON Program operations is a serious issue. The CON Commission is dependent on the information from DCH to fulfill its statutory responsibilities to provide both the annual review of the CON Program operations and recommendations at least every five years to the Legislature on the future of the Program, including changing the list of covered services.

Our audit also disclosed a reportable condition* related to the costs and revenues of the CON Program and the application fee structure (Finding 2).

Audit Objective: To assess DCH's effectiveness and efficiency in administering CON applications.

Conclusion: We concluded that DCH was generally effective and efficient in processing and issuing decisions on CON applications but generally was not effective or efficient in monitoring approved CON projects. Our audit disclosed one material condition:

- DCH had not sufficiently monitored projects that received an approved CON to help ensure that the projects were completed within the allowed time frames. Also, DCH did not ensure that facilities submitted required documentation relating to CON applications and project contracts on a timely basis. (Finding 3)

DCH agrees with the corresponding recommendations and will improve and clarify procedures to monitor projects that received an approved CON to help ensure that the projects are completed within the allowed time frames. DCH also will ensure that facilities submit required documentation relating to CON applications and project contracts on a timely basis.

Our audit also disclosed a reportable condition related to CON application fee refunds (Finding 4).

Audit Objective: To assess DCH's effectiveness and efficiency in monitoring health care facilities' and service providers' compliance with applicable CON provisions.

Conclusion: We concluded that DCH was generally not effective or efficient in monitoring health care facilities' and service providers' compliance with

applicable CON provisions. Our audit disclosed one material condition:

- DCH did not have effective policies and procedures in place to obtain relevant data needed to monitor facilities' compliance with quality assurance requirements contained in CON review standards. In addition, DCH had not taken appropriate remedial action for facilities identified as not being in compliance with quality assurance requirements. (Finding 5)

DCH agrees with the corresponding recommendations and will develop and implement effective policies and procedures to obtain relevant data needed to monitor facilities' compliance with quality assurance requirements contained in the CON review standards. When necessary, DCH will take appropriate remedial action for facilities identified as not being in compliance with quality assurance requirements.

The CON Commission agrees with the corresponding recommendations and believes that compliance information is critical to ensure that recipients of CON approvals are actually meeting the quality standards, not just in the first year but thereafter.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Certificate of Need Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

When developing our audit objectives, we considered the following nine legislative questions:

Question 1: What are the CON Program's stated mission, goals, and objectives?

Question 2: What performance measurements exist for the CON Program?

Question 3: Have Michigan's health care costs been compared to other states that have repealed or deregulated their CON programs?

Question 4: How does the level of regulation in Michigan compare with other states that have CON programs?

Question 5: How does the CON Program determine and evaluate quality of care for Michigan hospitals and other health care providers?

Question 6: Has DCH assessed the CON Program's impact on the availability of and access to medical care?

Question 7: What are the costs of operating the CON Program?

Question 8: Has DCH established a methodology for determining whether the CON Program is cost effective and efficient?

Question 9: Does DCH monitor the costs to hospitals and other health care providers associated with going through the CON application process?

Responses to these questions are included in this report as supplemental information (Exhibit 1).

Our audit procedures included examining the CON Program's records and activities primarily for the period October 1, 1998 through January 31, 2002. Our methodology included a preliminary review, which consisted of interviewing DCH and CON Commission personnel and reviewing various records and procedures to gain an understanding of CON Program operations and to form a basis for selecting operations to audit. We assessed DCH's and the CON Commission's efforts to evaluate the performance of the CON Program in relation to the stated goals and objectives, we evaluated DCH's administration of the CON application process, and we analyzed DCH's monitoring of compliance with applicable CON provisions.

In addition, we conducted a survey of health care providers who had applied for a CON during the period October 1, 1998 through June 30, 2001. A summary of the responses to our survey is included in this report as supplemental information (Exhibit 8).

AGENCY RESPONSES

Our audit report includes 5 findings and 7 corresponding recommendations. DCH's preliminary response indicated that it agreed with our recommendations and has taken or will take steps to implement them.

The CON Commission chairperson submitted a separate response on behalf of the CON Commission that included overall comments on our audit report and specific comments related to 3 of the findings. The CON Commission's preliminary response indicated that it agreed with our recommendations.