

**Office of the Auditor General**  
Performance Audit Report

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**Certificate of Need Program**  
Michigan Department of Health and Human Services

April 2015

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State of Michigan Auditor General  
Doug A. Ringler, CPA, CIA

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**The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.**

*Article IV, Section 53 of the Michigan Constitution*

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Office of the Auditor General

## Report Summary

### *Performance Audit*

**Report Number:**  
**391-0644-14**

### *Certificate of Need (CON) Program*

### *Michigan Department of Health and Human Services (MDHHS)*

**Released:**  
**April 2015**

The CON Program is a State regulatory program intended to balance the cost of, quality of, and access to Michigan's health care system. Its purpose is to ensure that needed services and facilities provide quality health care for State residents. The CON Program provides authorization for a new health facility; a change in bed capacity; the initiation, replacement, or expansion of a covered clinical service; or a covered capital expenditure. The 11-member CON Commission has the responsibility to develop, approve, disapprove, or revise CON review standards. MDHHS provides administrative support to the CON Commission and carries out the day-to-day CON Program operations. During fiscal years 2012 and 2013, MDHHS received 631 CON applications and approved projects totaling \$1.7 billion.

Audit Objective			Conclusion
Objective #1: To assess the sufficiency of the CON Commission's efforts to fulfill certain requirements outlined in Section 333.22215 of the <i>Michigan Compiled Laws</i> , including to promote and assure the availability and accessibility of quality health services at a reasonable cost and within a reasonable geographic proximity.			Sufficient with exceptions
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The CON Commission did not have a process to consistently document its evaluation and assessment of the CON Program. A standardized, documented process could improve how the CON Commission evaluates the CON Program operations, assesses effectiveness, and makes recommendations to the joint legislative committee on health policy ( <a href="#">Finding #1</a> ).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of MDHHS's efforts to monitor health facilities' and service providers' compliance with applicable CON provisions.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDHHS did not follow up approved CON projects timely to ensure that the applicants submitted project implementation progress reports (PIPRs) and contracts on schedule. Prompt receipt and review could reduce the risk that facilities may not implement their CON projects according to the approved application and within the allowed time frames ( <u>Finding #2</u> ).		X	Agrees
MDHHS did not adequately document its monitoring of health facilities' compliance with CON review standards to help ensure the quality of services provided by health facilities ( <u>Finding #3</u> ).		X	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>

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# OAG

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**Doug A. Ringler, CPA, CIA**  
Auditor General

April 30, 2015

Mr. Nick Lyon, Director  
Michigan Department of Health and Human Services  
and  
Marc D. Keshishian, MD, Chair  
Certificate of Need Commission  
Capitol View Building  
Lansing, Michigan

Dear Mr. Lyon and Dr. Keshishian:

I am pleased to provide this performance audit report on the Certificate of Need Program, Michigan Department of Health and Human Services.

We organized the background, findings, and recommendations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler  
Auditor General



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# BACKGROUND, FINDINGS, AND RECOMMENDATIONS

## **FULFILLING CERTAIN REQUIREMENTS OUTLINED IN SECTION 333.22215 OF THE *MICHIGAN COMPILED LAWS***

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### **AUDIT OBJECTIVE**

To assess the sufficiency of the Certificate of Need (CON) Commission's efforts to fulfill certain requirements outlined in Section 333.22215 of the *Michigan Compiled Laws*, including to promote and assure the availability and accessibility of quality health services at a reasonable cost and within a reasonable geographic proximity.

### **CONCLUSION**

Sufficient with exceptions.

### **FACTORS IMPACTING CONCLUSION**

- CON Commission's review and revision of all CON review standards every three years.
- CON Program's annual activity reports on its outputs\*.
- Reportable condition\* related to the CON Commission's lack of a process to consistently document its evaluation and assessment of the CON Program.

\* See glossary at end of report for definition.

## FINDING #1

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### Improved documentation is needed to support the CON Commission's evaluations and recommendations.

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The CON Commission did not have a process to consistently document its evaluation and assessment of the CON Program. A standardized, documented process could improve how the CON Commission evaluates CON Program operations, assesses effectiveness\*, and makes recommendations to the joint legislative committee on health policy.

The CON Commission is required by various subsections in Section 333.22215 of the *Michigan Compiled Laws* to annually assess the effectiveness of the CON Program, to biennially make recommendations to the joint legislative committee on health policy to improve or eliminate the Program, and to promote and assure the availability and accessibility of quality health services at a reasonable cost and within a reasonable geographic proximity for all people in the State. Section 333.22215(1)(m) of the *Michigan Compiled Laws* requires the Commission to review and, if necessary, revise each set of CON review standards at least every three years. Our review disclosed:

- a. The CON Commission did not consistently document its consideration of the affordability, quality, and accessibility of health care in Michigan during its process for revising the CON review standards.

For example, revisions to the review standards for hospital beds included research related to accessibility of care; however, revisions to the review standards for surgical services did not include any research or other information on accessibility. While we found some level of consideration for affordability and quality of health care in the revisions to these review standards, the CON Commission did not have a method to consistently document that the appropriate level of consideration was given. The revision process allows committees and workgroups to assist in technical areas or areas that need additional expertise. The process also allows for public comment to address any citizen concerns with the review standard.

- b. The CON Program's annual activity reports published on the Michigan Department of Health and Human Services (MDHHS) Web site did not include an evaluation of the Program as it relates to affordability, quality, and accessibility of health care in Michigan.

The reports presented outputs related to the timeliness of processing CON applications and a brief summary of CON Commission activities.

\* See glossary at end of report for definition.

**RECOMMENDATION**

We recommend that the CON Commission establish a process to consistently document its evaluation and assessment of the CON Program.

**AGENCY  
PRELIMINARY  
RESPONSE**

The CON Commission provided us with the following response:

*The Commission agrees with the finding and will develop a plan to address the consistent documentation of the evaluation of CON Program operations and assessment of Program effectiveness.*

## **MONITORING COMPLIANCE WITH CON PROVISIONS**

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**AUDIT OBJECTIVE**

To assess the effectiveness of MDHHS's efforts to monitor health facilities' and service providers' compliance with applicable CON provisions.

**CONCLUSION**

Moderately effective.

**FACTORS  
IMPACTING  
CONCLUSION**

- Procedures established to follow up each CON applicant's progress.
- Annual collection of data from facilities approved to offer CON covered services to monitor compliance with CON review standards.
- Reportable conditions related to the need for timely follow-up of CON projects and monitoring of compliance with CON review standards.

## FINDING #2

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**More timely follow-up is needed to ensure the submission of PIPRs and contracts on schedule.**

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MDHHS did not follow up approved CON projects timely to ensure that the applicants submitted project implementation progress reports (PIPRs) and contracts on schedule.

Prompt receipt and review could reduce the risk that facilities may not implement their CON projects according to the approved application and within the allowed time frames.

Our review of 17 CON projects and 6 recent emergency CON projects disclosed that MDHHS did not:

- a. Follow up with the applicant within the eleventh month for 9 of the 17 CON projects for which PIPR was not submitted. Also, MDHHS did not receive from the applicant a PIPR within the required 12-month period for these same 9 projects.

For the 9 projects, MDHHS conducted the follow-up between 4 and 64 days late. The PIPRs ranged from 14 to 113 days late.

MDHHS requires that an applicant complete and submit a PIPR to MDHHS when the project is 100% complete or, if not complete, no later than 12 months after the final decision letter was signed by the MDHHS director. CON procedure 14-0001 requires a CON analyst to follow up CON projects during the eleventh month after CON project approval if a completed PIPR was not received. MDHHS uses the PIPR to determine the project status and help ensure that applicants satisfy project requirements.

- b. Ensure that 4 of the 17 CON projects had enforceable contracts in place within 12 months of obtaining CON approval as required by *Michigan Administrative Code* R 325.9403.
- c. Receive final PIPRs timely from 3 of the 6 applicants with emergency CON projects. Also, MDHHS did not follow up with the 3 applicants promptly after the emergency CON projects expired to request final PIPRs.

Expiration dates for emergency CON projects are established by MDHHS upon application approval. One of the 3 emergency CON projects expired after one day, and 2 of the 3 emergency CON projects expired after two weeks. Final PIPRs for the 3 CON projects were submitted by the facility 230, 348, and 352 days after the projects expired.

Because of its records retention practices, MDHHS was unable to determine when follow-up occurred for the one-day emergency CON project. However, MDHHS completed its follow-up 348 and 349 days after the project expired for the other 2 emergency CON projects.

Our prior audit, released in April 2002, reported that applicants submitted PIPRs up to 582 days late. MDHHS has improved its process for following up and obtaining PIPRs and employs a full-time staff person for following up the CON projects.

**RECOMMENDATION**

We recommend that MDHHS continue to improve its efforts to follow up approved CON projects timely to ensure that the applicants submit PIPRs and contracts on schedule.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDHHS provided us with the following response:

*MDHHS agrees that it did not always follow up on approved CON projects on a timely basis to ensure that the applicants submitted PIPRs and project contracts on schedule. MDHHS regularly follows up on all CON-approved projects to monitor progress of completion and review and approve extension requests to deadlines as allowed under the administrative rules. This follow-up process often requires multiple contacts by MDHHS staff to obtain all applicable documents, so that requested extensions can be approved without adversely affecting the applicant. MDHHS will continue to improve this process to help ensure timely submission of necessary documents. In addition, MDHHS will adequately document all informal requests for additional time requested by applicants and MDHHS's approval of the same.*

### FINDING #3

**Improved documentation of MDHHS's monitoring of compliance with CON review standards could help ensure the quality of health care services.**

MDHHS did not adequately document its monitoring of health facilities' compliance with CON review standards to help ensure the quality of services provided by health facilities.

Section 333.22247 of the *Michigan Compiled Laws* gives MDHHS the authority to monitor compliance with CON review standards and requires MDHHS to investigate allegations of noncompliance with a CON review standard. The CON Commission appoints ad hoc advisory committees, composed of a majority of experts with professional competence in the subject matter of the proposed standard, to assist in the development of proposed CON review standards.

MDHHS conducts an annual survey of CON-approved health facilities to monitor the facilities' compliance with CON review standards. During our audit period, MDHHS completed an analysis of the survey responses for the 2010 through 2012 open heart surgery\* and psychiatric beds services. However, MDHHS had not documented its analysis for the review standards of the other covered services.

We reviewed the data obtained from the 2013 annual CON surveys for megavoltage radiation therapy\* (MRT), urinary lithotripter services, positron emission tomography\* (PET), cardiac catheterization\*, and computed tomography\* (CT) scans and identified several instances of noncompliance with review standard requirements. As indicated in the following table, a significant number of facilities did not meet CON review standard requirements:

<u>CON Review Standard</u>	<u>Number of Facilities Reviewed</u>	<u>Number of Facilities Not Meeting CON Review Standard Requirements</u>	<u>Percent</u>
MRT units	75	26	34.7%
Urinary lithotripters mobile unit procedures	7	1	14.3%
Urinary lithotripters mobile region procedures	19	3	15.8%
PET scans	18	0	0.0%
Cardiac catheterization diagnostic facilities	14	6	42.9%
Cardiac catheterization diagnostic PCI* facilities	14	5	35.7%
CT scanners	276	98	35.5%

CON Program personnel informed us that they perform compliance reviews of other covered services as annual CON survey information is received. CON Program personnel review the survey information for outliers; however, they do not document their review. MDHHS also informed us that it does not

\* See glossary at end of report for definition.

have the resources to perform in-depth compliance reviews of all review standards as it did for open heart surgery and psychiatric beds services. MDHHS employs one full-time employee to perform these reviews.

**RECOMMENDATION**

We recommend that MDHHS adequately document its monitoring of health facilities' compliance with CON review standards to help ensure the quality of services provided by health facilities.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDHHS provided us with the following response:

*MDHHS agrees that it did not always adequately document its monitoring of health facilities' compliance with CON review standards. MDHHS uses the annual survey data to monitor the facilities by searching for standard deviations and significant signs of noncompliance; however, MDHHS acknowledges that there is not adequate documentation of this monitoring. MDHHS will develop a process that documents the monitoring of health facilities' compliance with CON review standards.*

*MDHHS performs a more in-depth compliance review of selected standards regularly, most recently of all eligible facilities offering open heart surgery and psychiatric bed services; however, due to resource constraints, MDHHS is not able to complete an in-depth compliance review of all facilities related to all 15 CON-covered services every year. MDHHS will determine on an annual basis if a more in-depth review of any of the standards would be beneficial.*



## SUPPLEMENTAL INFORMATION

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UNAUDITED  
Exhibits 1 through 4

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Inventories of Hospital Beds and Bed Need Projections  
Summary Overview

The CON review standards require MDHHS to maintain and provide, upon request, a listing of the current inventories of hospital beds. MDHHS maintains these inventories plus corresponding projections of bed needs for each of the following general categories:

<u>General Category</u>	<u>Inventory of Existing Beds (1)</u>	<u>Bed Need Projection (2)</u>
Acute medical care services	26,100	17,355
Nursing home/hospital long-term care services	48,421	43,341
Adult inpatient psychiatric care services	2,123	2,091
Child/adolescent inpatient psychiatric care services	240	217

- (1) The figures in the inventory of existing beds column do not reflect any data regarding applications for beds under appeal or pending a final decision by MDHHS. The effective date for the inventories for the general categories is November 3, 2014. The instances in which the inventory of beds is greater than the bed need projection are due, in part, to some health facilities being granted hospital beds under past CON review standards or prior to the existence of CON review standards. A facility's existing bed capacity is not affected when MDHHS recalculates bed need projections.
- (2) The bed need projections for acute medical care services, nursing home/hospital long-term care services, and adult and child/adolescent inpatient psychiatric care services were last calculated by MDHHS in November 2014, August 2013, and January 2013, respectively.

Each health facility that provides services related to these categories is grouped together with other health facilities in regions across the State based on either the geographic location of the populations they serve (acute medical care services) or the geographic location of the facilities. These regions are defined in the CON review standards for each category. When a facility applies for additional hospital beds, MDHHS considers the bed need in the region in which the facility is grouped and compares it with the capacity of existing facilities in that region. Applications for additional hospital beds in those regions where there is not a need would not be approved.

See Exhibits 1 through 4 for details on hospital bed inventories and bed need projections in each general category's designated regions.

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Inventory of Hospital Beds and Bed Need Projections  
For Acute Medical Care Services

MDHHS's bed inventories and need projections for acute medical care services are broken down into 33 hospital groups and a miscellaneous group (NG).

<u>Hospital Group*</u>	<u>Inventory of Existing Beds</u>	<u>Bed Need Projection</u>	<u>Need or (Excess)</u>
1	3,975	2,820	(1,155)
2	3,524	2,529	(995)
3	2,254	1,553	(701)
4	2,031	1,344	(687)
5	1,768	1,459	(309)
6	395	249	(146)
7	1,086	731	(355)
8	389	288	(101)
9	113	80	(33)
10	899	570	(329)
11	453	240	(213)
12	328	272	(56)
13	270	67	(203)
14	1,829	1,360	(469)
15	462	288	(174)
16	311	152	(159)
17	237	124	(113)
18	191	90	(101)
19	1,441	1,013	(428)
20	1,708	999	(709)
21	188	55	(133)
22	192	64	(128)
23	160	63	(97)
24	502	398	(104)
25	227	115	(112)
26	124	63	(61)
27	106	55	(51)
28	314	140	(174)
29	136	59	(77)
30	111	44	(67)
31	107	60	(47)
32	23	7	(16)
33	15	4	(11)
NG (no group)	231	No projection	Not applicable
Total	26,100	17,355	(8,514)

\* See Exhibit 5 for a listing of the hospitals in each hospital group, i.e., a cluster or grouping of hospitals based on geographic proximity and hospital utilization patterns.

Source: MDHHS Web site.

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Inventory of Hospital Beds and Bed Need Projections  
For Nursing Home/Hospital Long-Term Care Services

MDHHS's bed inventories and need projections for nursing home/hospital long-term care services are broken down into 84 planning areas.

<u>Planning Area</u>	<u>Inventory of Existing Beds</u>	<u>Bed Need Projection</u>	<u>Need or (Excess)</u>
Alcona	78	91	13
Alger	106	58	(48)
Allegan	539	449	(90)
Alpena	185	168	(17)
Antrim	133	135	2
Arenac	113	95	(18)
Baraga	59	45	(14)
Barry	267	263	(4)
Bay	654	545	(109)
Benzie	117	112	(5)
Berrien	787	786	(1)
Branch	283	194	(89)
Calhoun	796	621	(175)
Cass	188	247	59
Charlevoix	159	141	(18)
Cheboygan	182	163	(19)
Chippewa	165	166	1
Clare	163	170	7
Clinton	339	320	(19)
Crawford	111	83	(28)
Delta	282	228	(54)
Dickinson	245	148	(97)
Eaton	513	496	(17)
Emmet	220	175	(45)
Genesee	1,915	1,847	(68)
Gladwin	170	153	(17)
Gogebic	174	107	(67)
Grand Traverse	505	431	(74)
Gratiot	530	200	(330)
Hillsdale	209	232	23
Houghton/Keweenaw	365	180	(185)
Huron	293	214	(79)

*This exhibit is continued on next page.*

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Inventory of Hospital Beds and Bed Need Projections  
For Nursing Home/Hospital Long-Term Care Services

*Continued*

<u>Planning Area</u>	<u>Inventory of Existing Beds</u>	<u>Bed Need Projection</u>	<u>Need or (Excess)</u>
Ingham	1,084	953	(131)
Ionia	235	226	(9)
Iosco	211	183	(28)
Iron	249	109	(140)
Isabella	300	232	(68)
Jackson	796	706	(90)
Kalamazoo	1,032	1,051	19
Kalkaska	104	85	(19)
Kent	2,477	2,291	(186)
Lake	79	76	(3)
Lapeer	368	354	(14)
Leelanau	168	169	1
Lenawee	542	449	(93)
Livingston	710	689	(21)
Luce	22	38	16
Mackinac	48	69	21
Macomb	4,210	4,044	(166)
Manistee	107	145	38
Marquette	441	327	(114)
Mason	185	158	(27)
Mecosta	200	189	(11)
Menominee	133	135	2
Midland	422	409	(13)
Missaukee	95	79	(16)
Monroe	659	660	1
Montcalm	272	273	1
Montmorency	74	77	3
Muskegon	815	720	(95)
Newaygo	245	222	(23)
Oakland	5,620	5,235	(385)
Oceana	120	121	1
Ogemaw	172	131	(41)

*This exhibit is continued on next page.*

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Inventory of Hospital Beds and Bed Need Projections  
For Nursing Home/Hospital Long-Term Care Services

*Continued*

<u>Planning Area</u>	<u>Inventory of Existing Beds</u>	<u>Bed Need Projection</u>	<u>Need or (Excess)</u>
Ontonagon	46	47	1
Osceola	50	114	64
Oscoda	62	50	(12)
Otsego	148	129	(19)
Ottawa	1,022	1,035	13
Presque Isle	106	106	0
Roscommon	179	176	(3)
Saginaw	1,142	965	(177)
Sanilac	250	218	(32)
Schoolcraft	50	58	8
Shiawassee	316	309	(7)
St. Clair	789	729	(60)
St. Joseph	369	276	(93)
Tuscola	256	248	(8)
Van Buren	330	301	(29)
Washtenaw	1,217	1,217	0
Wexford	115	161	46
NW Wayne	3,031	2,839	(192)
SW Wayne	1,796	1,663	(133)
Detroit	4,107	2,832	(1,275)
State Total	<u>48,421</u>	<u>43,341</u>	<u>(5,080)</u>

Source: MDHHS Web site.

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Inventory of Hospital Beds and Bed Need Projections  
For Adult Inpatient Psychiatric Care Services

MDHHS's bed inventories and need projections for adult inpatient psychiatric care services are broken down into 8 planning areas.

<u>Planning Area</u>	<u>Inventory of Existing Beds</u>	<u>Bed Need Projection</u>	<u>Need or (Excess)</u>
Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne	1,152	1,084	(68)
Clinton, Eaton, Hillsdale, Ingham, Jackson, and Lenawee	145	169	24
Barry, Berrien, Branch, Calhoun, Cass, Kalamazoo, St. Joseph, and Van Buren	174	188	14
Allegan, Ionia, Kent, Lake, Mason, Montcalm, Muskegon, Newaygo, Oceana, and Ottawa	324	300	(24)
Genesee, Lapeer, and Shiawassee	135	143	8
Arenac, Bay, Clare, Gladwin, Gratiot, Huron, Iosco, Isabella, Mecosta, Midland, Ogemaw, Osceola, Oscoda, Saginaw, Sanilac, and Tuscola	107	95	(12)
Alcona, Alpena, Antrim, Benzie, Charlevoix, Cheboygan, Crawford, Emmet, Grand Traverse, Kalkaska, Leelanau, Manistee, Missaukee, Montmorency, Otsego, Presque Isle, Roscommon, and Wexford	29	48	19
Alger, Baraga, Chippewa, Delta, Dickinson, Gogebic, Houghton, Iron, Keweenaw, Luce, Mackinac, Marquette, Menominee, Ontonagon, and Schoolcraft	57	64	7
Total	<u>2,123</u>	<u>2,091</u>	<u>(32)</u>

Source: MDHHS Web site.

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Inventory of Hospital Beds and Bed Need Projections  
For Child/Adolescent Inpatient Psychiatric Care Services

MDHHS's bed inventories and need projections for child/adolescent inpatient psychiatric care services are broken down into 8 planning areas.

<u>Planning Area</u>	<u>Inventory of Existing Beds</u>	<u>Bed Need Projection</u>	<u>Need or (Excess)</u>
Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne	138	113	(25)
Clinton, Eaton, Hillsdale, Ingham, Jackson, and Lenawee	0	15	15
Barry, Berrien, Branch, Calhoun, Cass, Kalamazoo, St. Joseph, and Van Buren	6	17	11
Allegan, Ionia, Kent, Lake, Mason, Montcalm, Muskegon, Newaygo, Oceana, and Ottawa	67	32	(35)
Genesee, Lapeer, and Shiawassee	0	12	12
Arenac, Bay, Clare, Gladwin, Gratiot, Huron, Iosco, Isabella, Mecosta, Midland, Ogemaw, Osceola, Oscoda, Saginaw, Sanilac, and Tuscola	23	14	(9)
Alcona, Alpena, Antrim, Benzie, Charlevoix, Cheboygan, Crawford, Emmet, Grand Traverse, Kalkaska, Leelanau, Manistee, Missaukee, Montmorency, Otsego, Presque Isle, Roscommon, and Wexford	0	8	8
Alger, Baraga, Chippewa, Delta, Dickinson, Gogebic, Houghton, Iron, Keweenaw, Luce, Mackinac, Marquette, Menominee, Ontonagon, and Schoolcraft	6	6	0
Total	<u>240</u>	<u>217</u>	<u>(23)</u>

Source: MDHHS Web site.

**TABLE 1: Michigan Hospital Groups, 2012**

<b>HG 1</b>	Botsford Hospital	<b>HG 6</b>	Port Huron Hospital	<b>HG 15</b>	Gerber Memorial Hospital	<b>HG 23</b>	350010 St. Joseph Health System - Tawas
630050	Children's Hospital of Michigan	740020	St. John River District Hospital	620010	Great Lakes Specialty Hospital - Hackley	350010	St. Mary's of Michigan Standish Hospital
630080	Detroit Receiving Hospital	740030	St. Joseph Mercy Port Huron Hospital	610051	Mercy Health Partners - General Campus	60020	West Branch Regional Medical Center
630090	DMC Surgery Hospital	740010		610030	Mercy Health Partners - Hackley Campus	650010	
630060	Garden City Hospital			610010	Mercy Health Partners - Mercy Campus		
620070	Harper University Hospital	<b>HG 7</b>	Clinton Memorial Hospital	610020	Mercy Health Partners - Lakeshore Campus	<b>HG 24</b>	Kalkaska Memorial Health Center
630220	Henry Ford Hospital	190011	Eaton Rapids Medical Center	640021	Holland Hospital	400020	Mercy Hospital - Grayling
630190	Honolulu Women's Hospital	230021	Edward W. Sparrow Hospital		North Ottawa Community Hospital	200020	Munson Medical Center
630240	Karmanos Cancer Center	230022	Ingham Regional Medical Center	700020	Zeland Community Hospital	280010	Ossego Memorial Hospital
630520	Oakland Regional Hospital	330020	Ingham Regional Medical Center - Penn. Campus	700010		690020	
630013	Providence Hospital and Medical Center	330010	Ingham Regional Medical Center - St. Lawrence Campus				
630130	Rehabilitation Institute	330050	Sparrow Specialty Hospital	<b>HG 16</b>		<b>HG 25</b>	Charlevoix Area Hospital
630410	Select Specialty Hospital - NW Detroit	330061		700030	Carson City Hospital	150021	Cheboygan Memorial Hospital
630523	Shant-Grace Hospital				Gratiot Medical Center	160020	Northern Michigan Regional Hospital
630450	St. John Macomb-Oakland Hosp (Oakland)	<b>HG 8</b>	Allergiance Health	<b>HG 17</b>	Sheridan Community Hospital	<b>HG 26</b>	Alpena Regional Medical Center
630080	St. John Macomb-Oakland Hosp (Oakland)	380010	Cardink of Jackson	590010	Spectrum Health United Memorial - Kelsey	40010	Rogers City Rehabilitation Hospital
630150	Straith Hospital for Spectral Surgery	380051		590030	Spectrum Health United Memorial - United	710030	
				290010			
				590060			
<b>HG 2</b>	Crittendon Hospital Medical Center	<b>HG 9</b>	Emma L. Birby Medical Center	<b>HG 18</b>	Mecosta County Medical Center	<b>HG 27</b>	Memorial Medical Center of West Michigan
630070	Doctors' Hospital of Michigan	460020	Herrick Medical Center	540030	Mercy Hospital	530010	Paul Oliver Memorial Hospital
630110	Henry Ford West Bloomfield Hospital	460052		670021	Spectrum Health Reed City Hospital	100020	West Shore Medical Center
630176	Huron Valley-Sinai Hospital						
630014	POH Medical Center	<b>HG 10</b>	Allagan General Hospital	<b>HG 19</b>	Genesys Regional Medical Center	<b>HG 28</b>	Bell Memorial Hospital
630120	Providence Medical Center - Providence Park	390032	Borgess Medical Center	250072	Hurley Medical Center	520051	Marquette General Health System
630177	Select Specialty Hospital - Pontiac	390010	Borgess-Pipp Hospital	250040	Lapeer Regional Medical Center	210010	St. Francis Hospital
630172	Select Specialty Hospital - Pontiac	390031	Bronson Lakeview Hospital	440010	McLaren Regional Medical Center		
630140	St. Joseph Mercy Oakland Hospital	800041	Bronson Methodist Hospital	250050	Memorial Healthcare	<b>HG 29</b>	Banga County Memorial Hospital
630030	William Beaumont Hospital, Royal Oak	390020	Select Specialty Hospital - Kalamazoo	780010	Select Specialty Hospital - Flint	70020	Dickinson County Healthcare System
630160	William Beaumont Hospital, Troy	390032		250071		220020	Northstar Health System
<b>HG 3</b>	Henry Ford Cottage Hospital	<b>HG 11</b>	Battle Creek Health System	<b>HG 20</b>	Bay Regional Medical Center	<b>HG 30</b>	Aspirus Keweenaw Hospital
820040	Henry Ford Macomb Hospital	130031	Community Health Center of Branch County	90050	Bay Regional Medical Center (West Campus)	310021	Aspirus Ontonagon Hospital
5000110	Henry Ford Macomb Hospital	120010	Hillsdale Community Health Center	90020	Bay Special Care Hospital	660020	Grand View Health System
500020	Henry Ford Macomb Hospital - Warren Campus	130080	Oakland Regional Rehabilitation Center	90010	Caro Community Hospital	270022	Portage Hospital
500060	Mount Clemens Regional Medical Center	130100		790032	Covenant Medical Center - Cooper		
820276	Select Specialty Hospital - Grosse Pointe			730061	Covenant Medical Center - Harrison	<b>HG 31</b>	Chippewa County War Memorial Hospital
500111	Select Specialty Hospital - Macomb	<b>HG 12</b>	Borgess-Lee Memorial Hospital	730030	Covenant Medical Center - Northern Michigan	170020	Elen Newberry Joy Hospital
830420	St. John Hospital & Medical Center	140010	Lakeland Hospital, Niles	730060	Healthsource Saginaw, Inc.	480020	
500070	St. John Macomb-Oakland Hosp (Macomb)	110070	Lakeland Hospital, St. Joseph	560020	MidMichigan Medical Center-Midland		
500030	St. John North Shores Hospital	110050	Lakeland Specialty Hospital	730062	Select Specialty Hospital - Saginaw	<b>HG 32</b>	Munising Memorial Hospital
820030	William Beaumont Hospital, Grosse Pointe	110080		730050	St. Mary's of Michigan	770010	Schoolcraft Memorial Hospital
<b>HG 4</b>	Henry Ford Wyandotte Hospital	<b>HG 13</b>	Community Hospital Watervliet	<b>HG 21</b>	Deckerville Community Hospital	<b>HG 33</b>	Mackinac Straits Health System, Inc.
820230	Mercy Memorial Hospital	110040	South Haven Community Hospital	320040	Harbor Beach Community Hospital	490030	
820010	Oakwood Annapolis Hospital	800020	Sturgis Hospital	790031	Hills & Dales General Hospital	NG	Bronson Vicksburg Hospital
820250	Oakwood Heritage Hospital	750010	Three Rivers Health	320020	Huron Memorial Hospital	390030	Great Lakes Specialty Hospital-Grand
820120	Oakwood Hospital And Medical Center	750020		760041	Marquette Regional Hospital	410092	Brighton Hospital
820170	Oakwood Southshore Medical Center	<b>HG 14</b>	Mary Free Bed Rehabilitation Hospital	760030	Mckeanie Memorial Hospital	410092	Henry Ford Macomb Hospital
820272	Select Specialty Hospital - Downriver	410070	Metropolitan Hospital	320030	Scheurer Hospital	470010	Southeast Michigan Surgical Hospital
820130	Vibra of Southeastern Michigan	410060	Pennock Hospital	760030	Saint Mary's Health Care	500080	Forest Health Medical Center
<b>HG 5</b>	Chelsea Community Hospital	410080	Saint Mary's Health Care	320030	Spectrum Health Butterworth Hospital	810010	Kindred Hospital Detroit
810080	Select Specialty Hospital - Ann Arbor	410010	Spectrum Health Blodgett Hospital	<b>HG 22</b>	Spectrum Health Kent Community Hospital		
810030	St. Joseph Mercy Ann Arbor Hospital	410040	Spectrum Health Butterworth Hospital	370010	Central Michigan Community Hospital		
470020	St. Joseph Mercy Livingston Hospital	410090	Spectrum Health Kent Community Hospital	260011	MidMichigan Medical Center - Gladwin		
810040	St. Joseph Mercy Saline Hospital			180010	MidMichigan Medical Center Clare		
810060	University of Michigan Hospitals						

Source data: 2008-2010 MIDD

CON Review Standards for Hospital Beds - Hospital Groups Effective September 28, 2012



CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Maps of CON Covered Service Locations

We prepared the maps in this exhibit using the 2011 Atlas of Health Facilities located on the MDHHS Web site. The 2011 Atlas of Health Facilities is an interactive atlas of facilities offering a CON covered service or beds in the State of Michigan. The atlas, designed in collaboration with Michigan State University's Department of Geography, allows users to see the facilities in many different views using differing criteria. Pages 27 through 39 identify the locations of the following services:

1. Air ambulance\*
2. Cardiac catheterization
3. Computed tomography\* (CT) scanners
4. Hospitals
5. Lithotripsy\*
6. Magnetic resonance imaging\* (MRI)
7. Megavoltage radiation therapy\* (MRT)
8. Neonatal intensive care units (NICUs)
9. Open heart surgery\*
10. Organ and bone marrow transplant\* services
11. Positron emission tomography\* (PET) scanners
12. Psychiatric hospitals/units
13. Surgical services

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*\* See glossary at end of report for definition.*



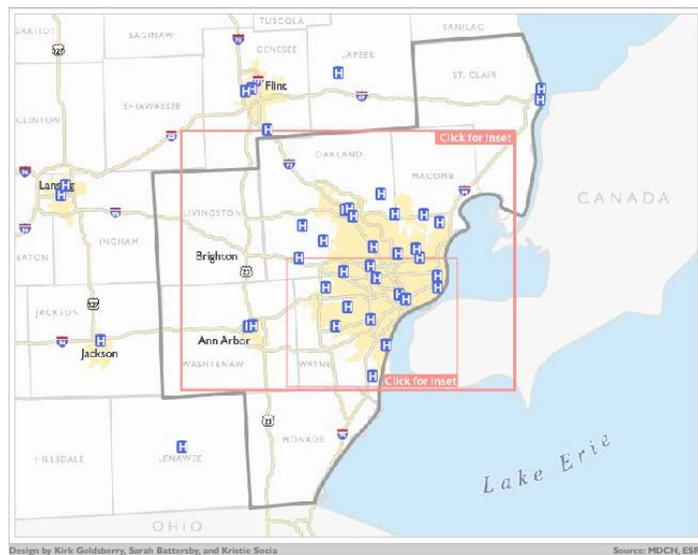
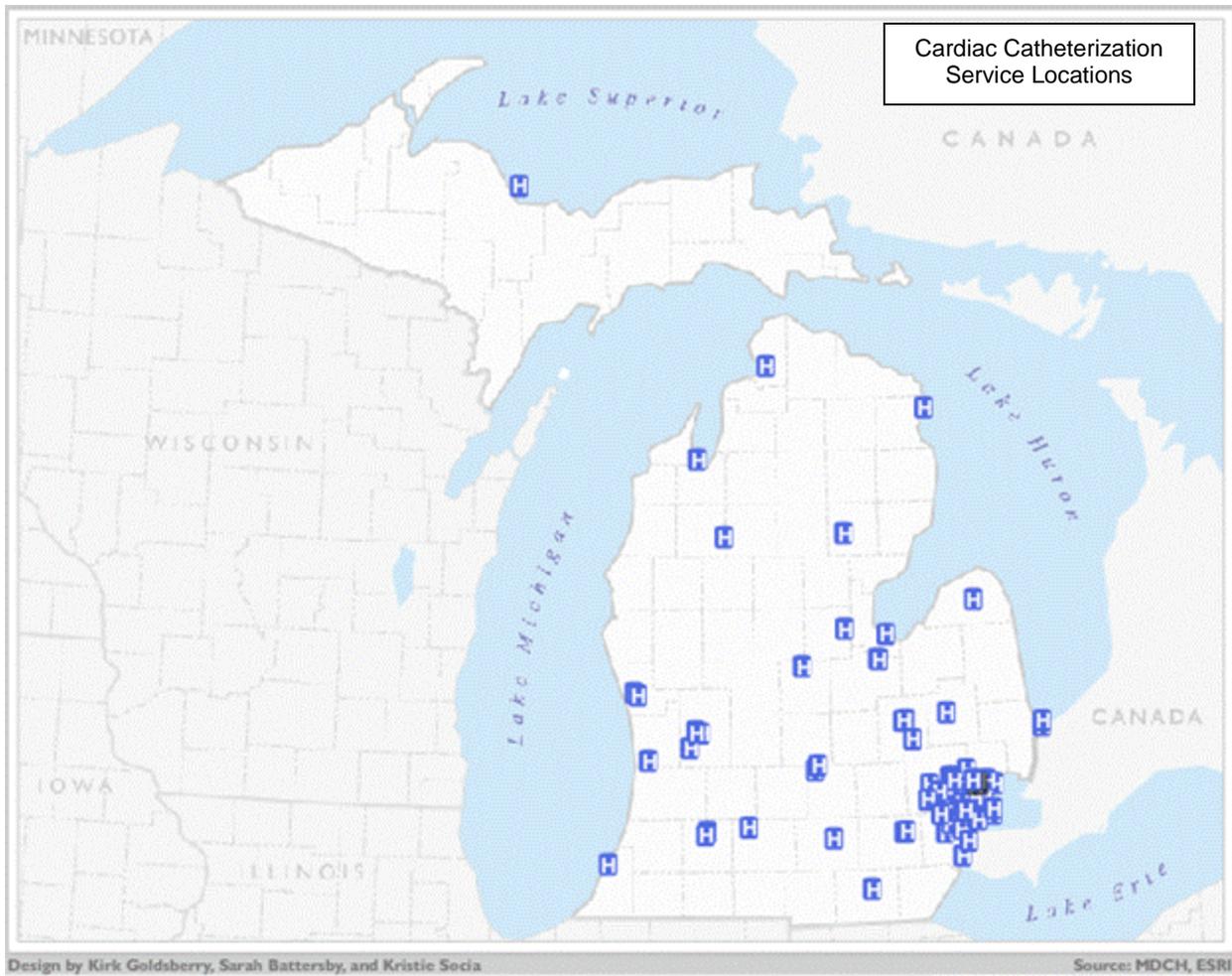
Map Design by Kristie Socia and Kirk Goldberry

Michigan State University Department of Geography  
www.geog.msu.edu

Source: MDCH, M CO, U.S. Census  
7/2011

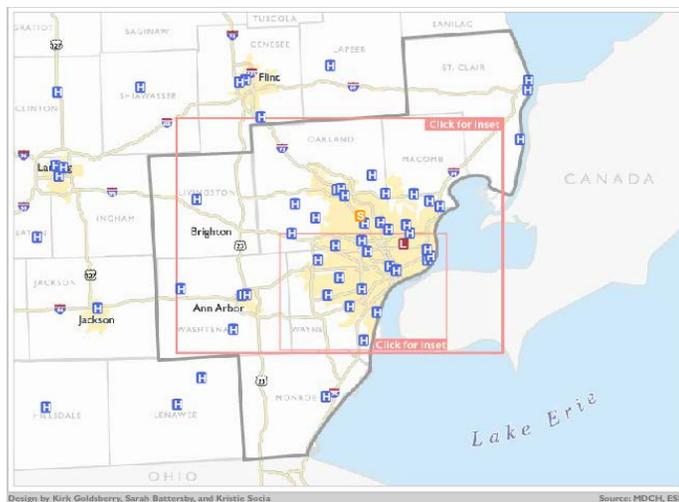
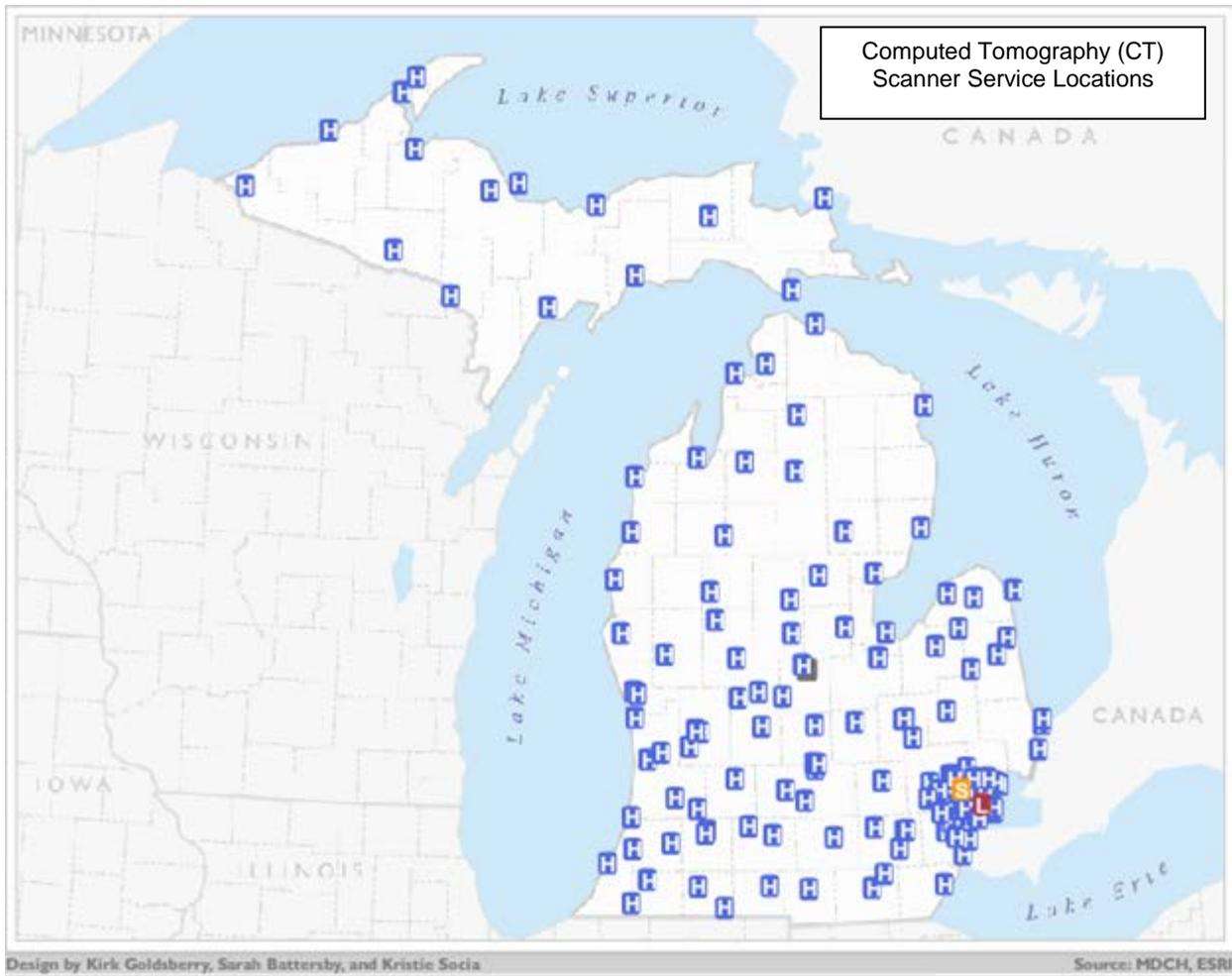
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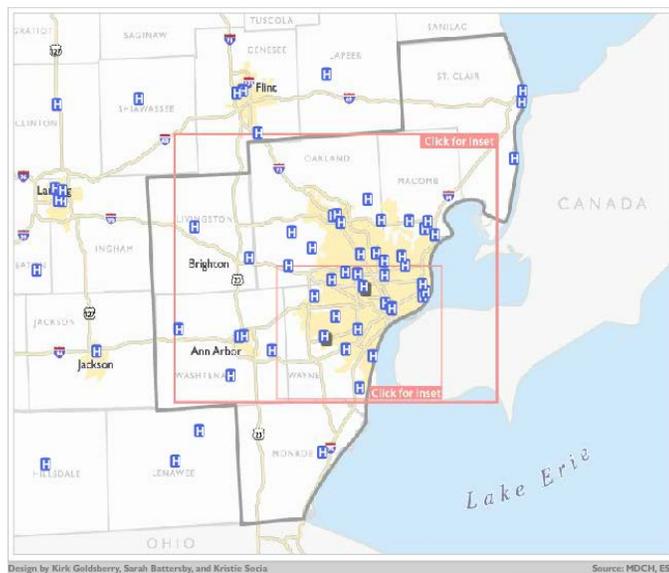
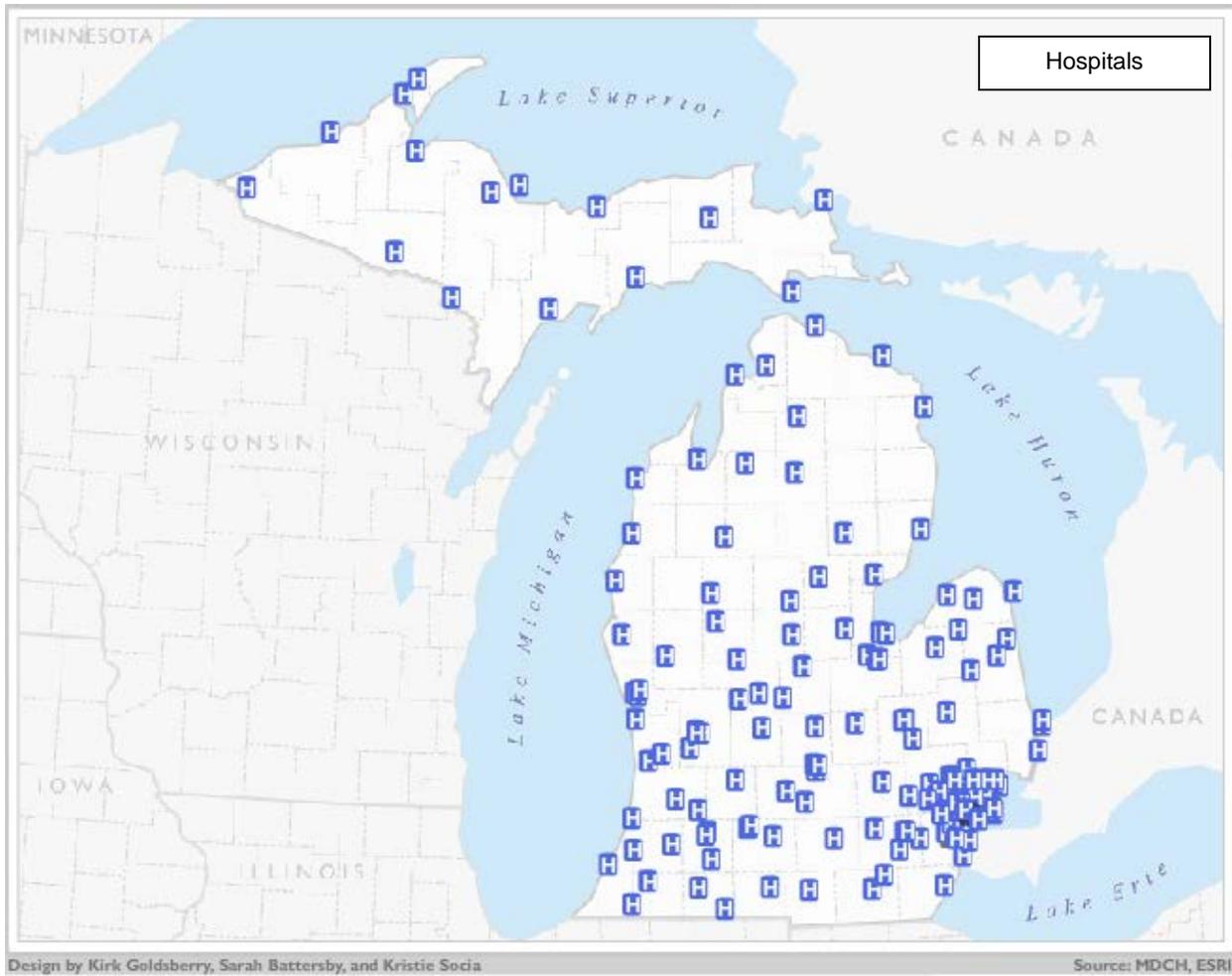
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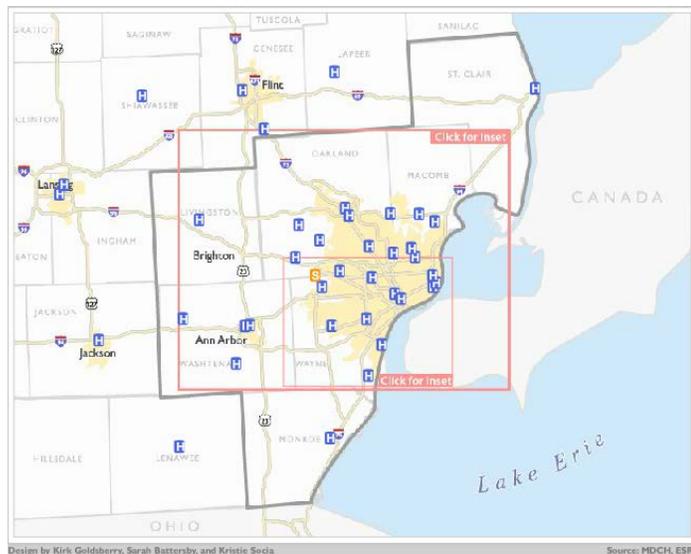
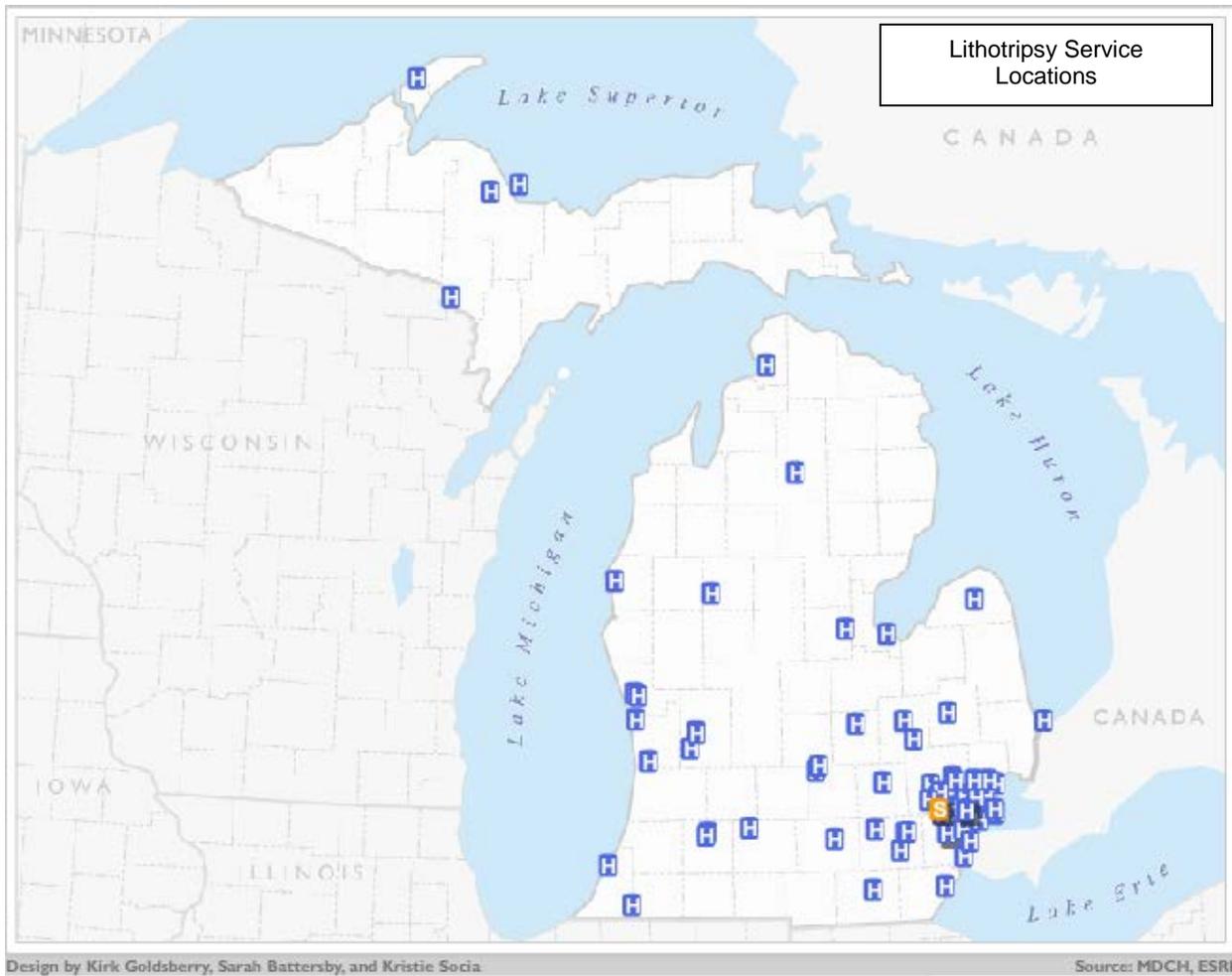
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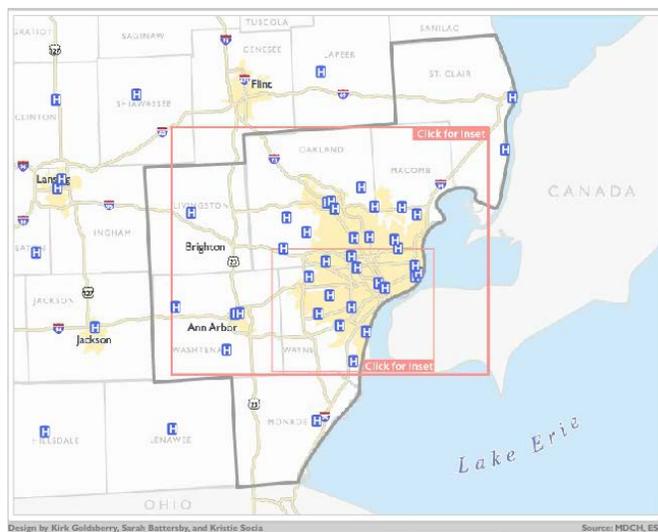
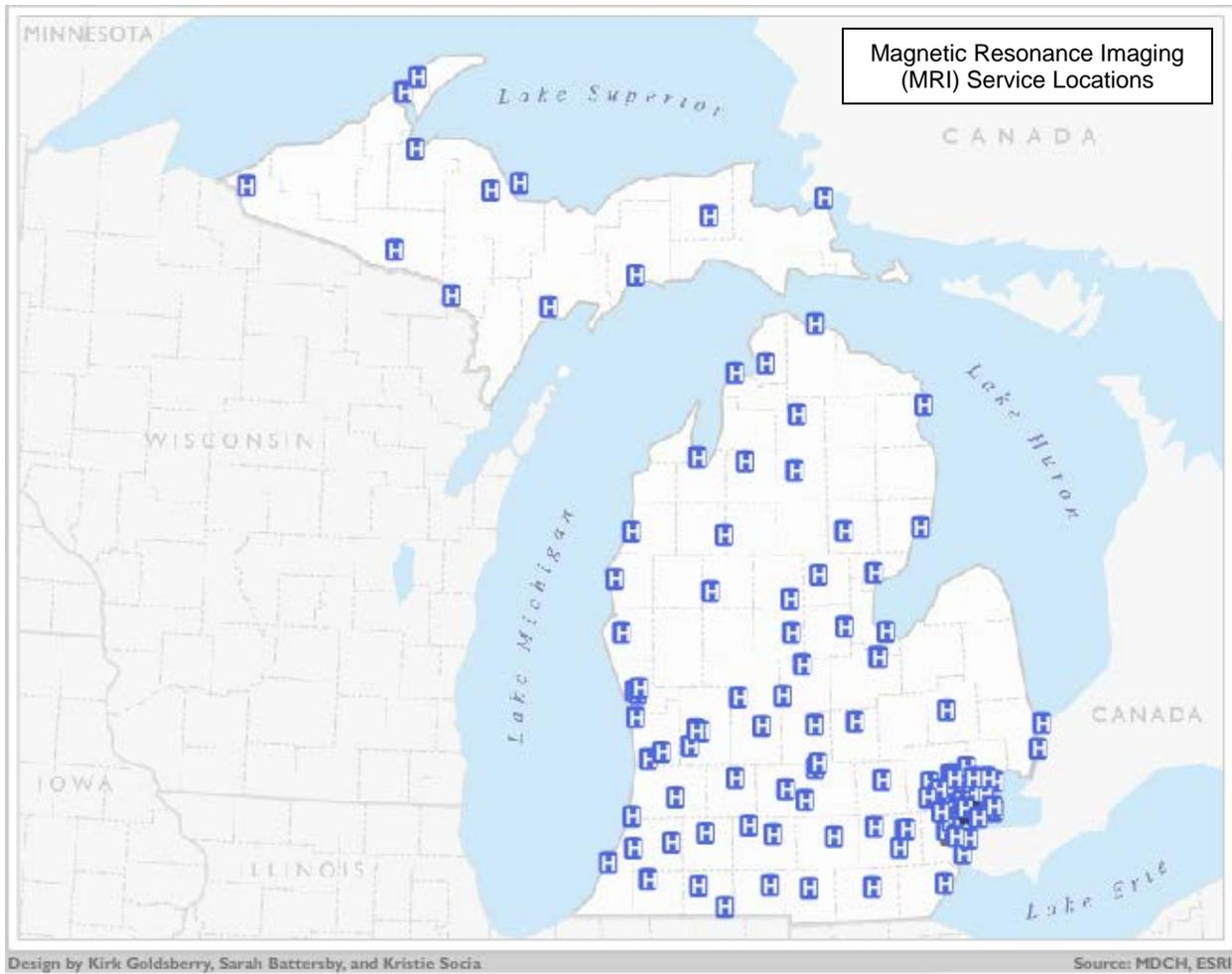
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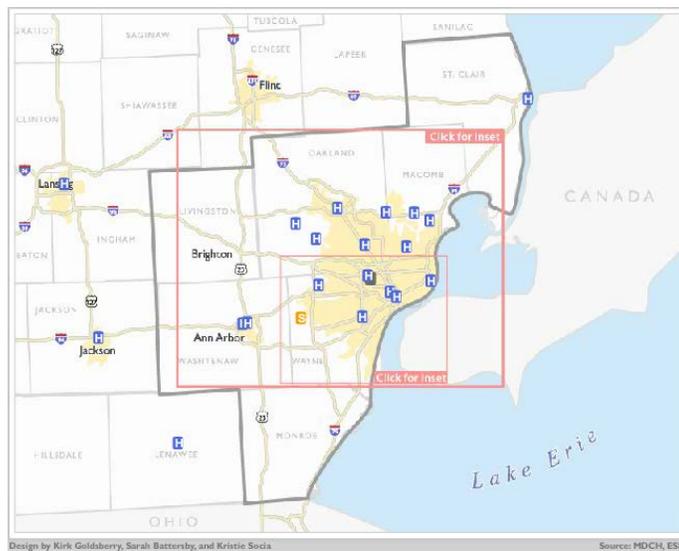
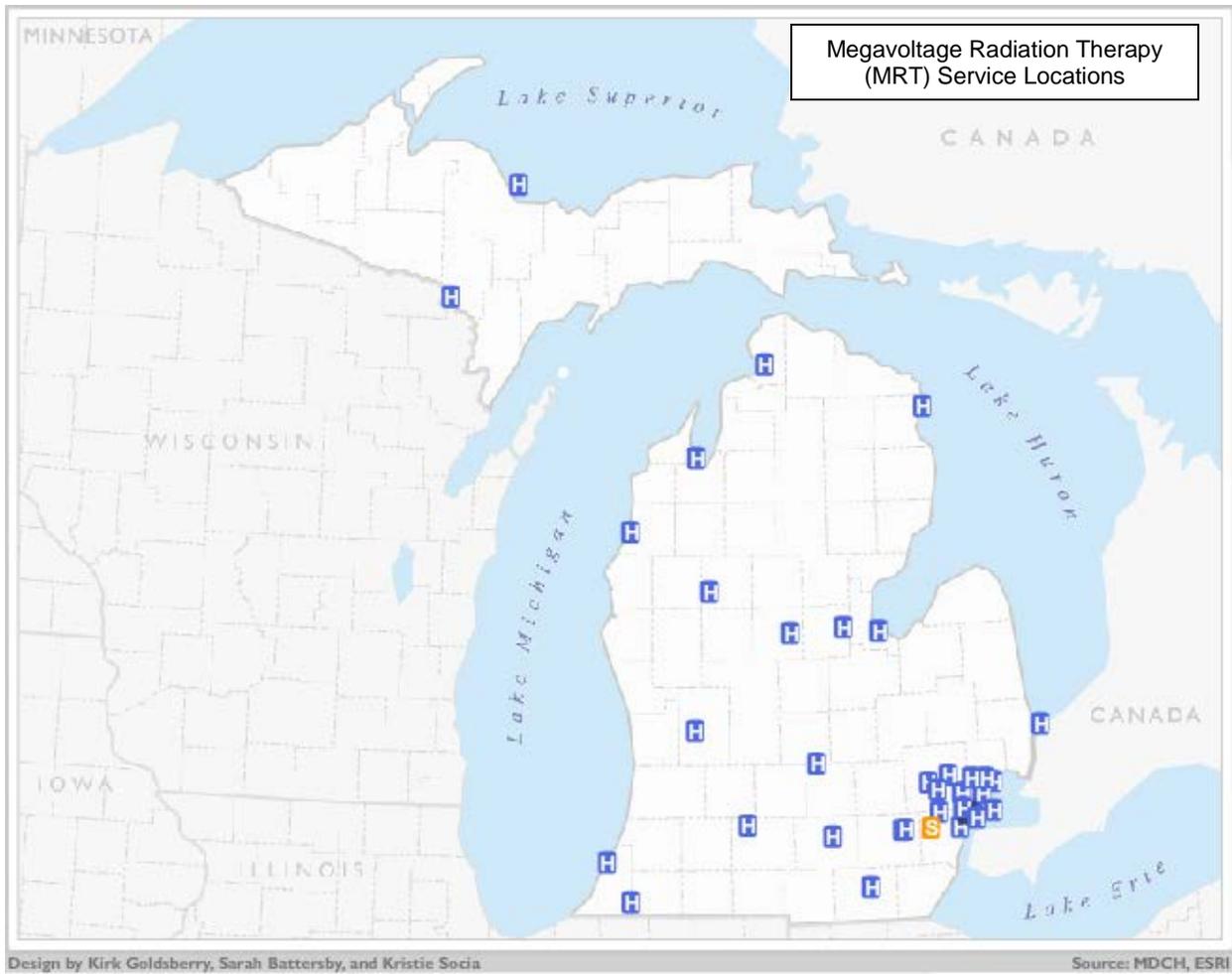
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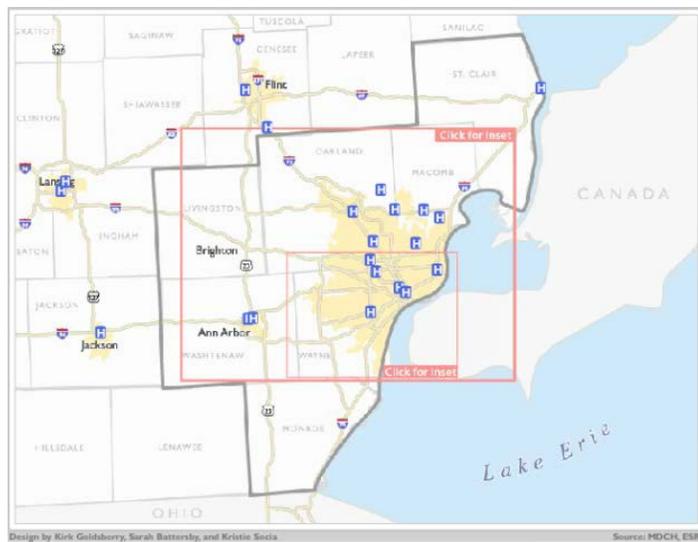
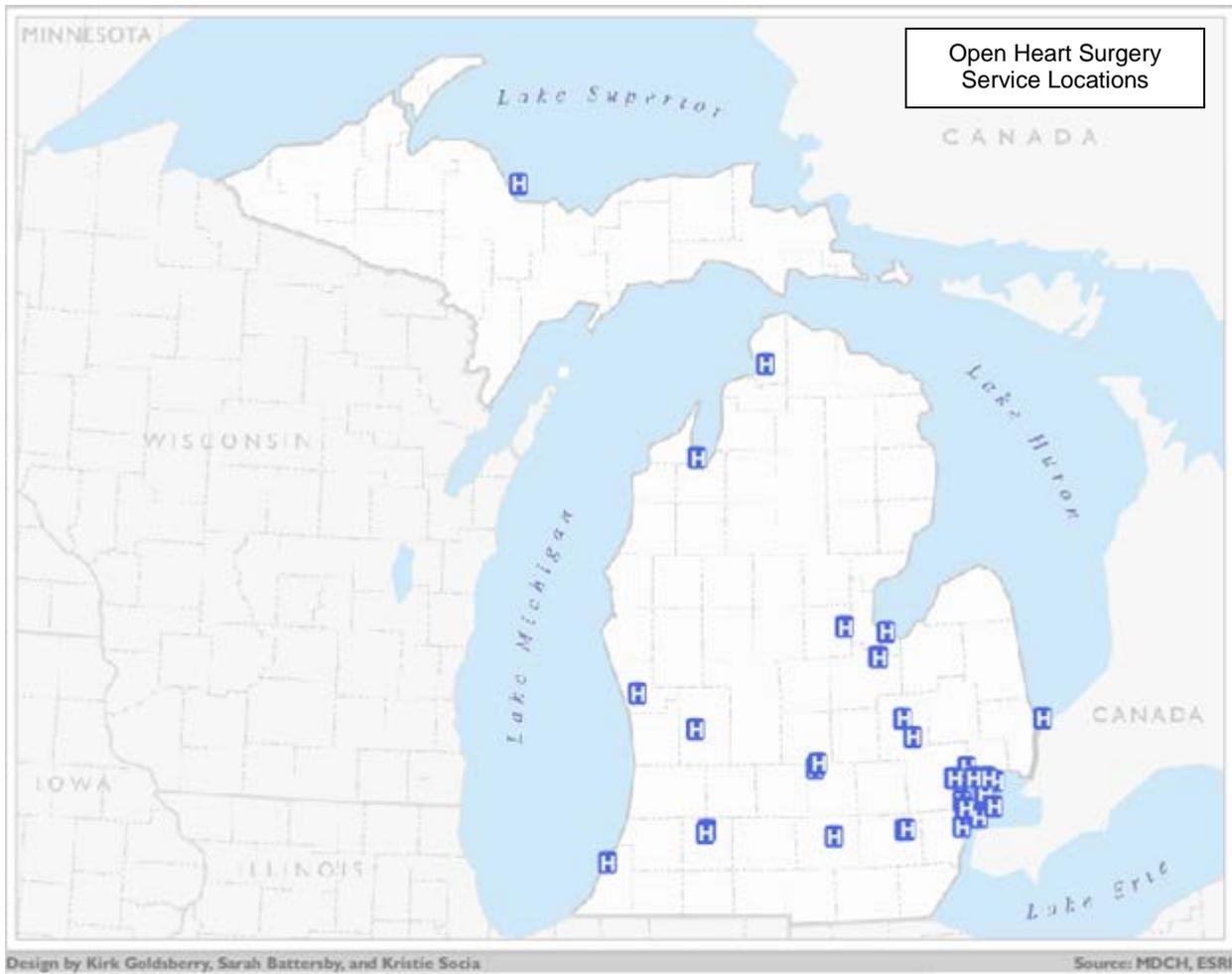
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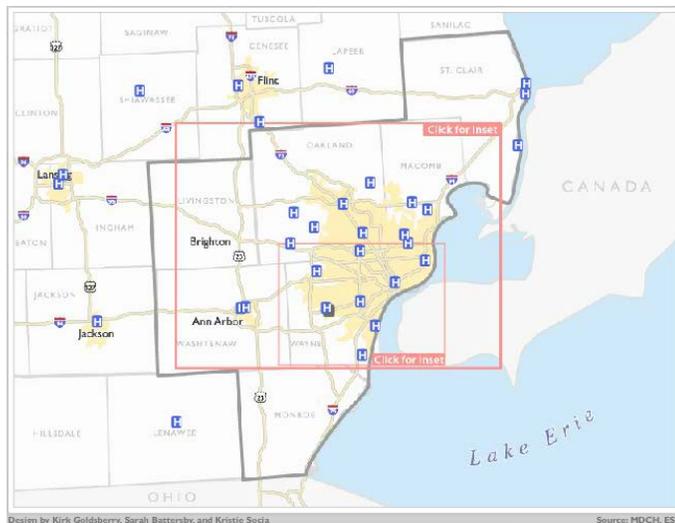
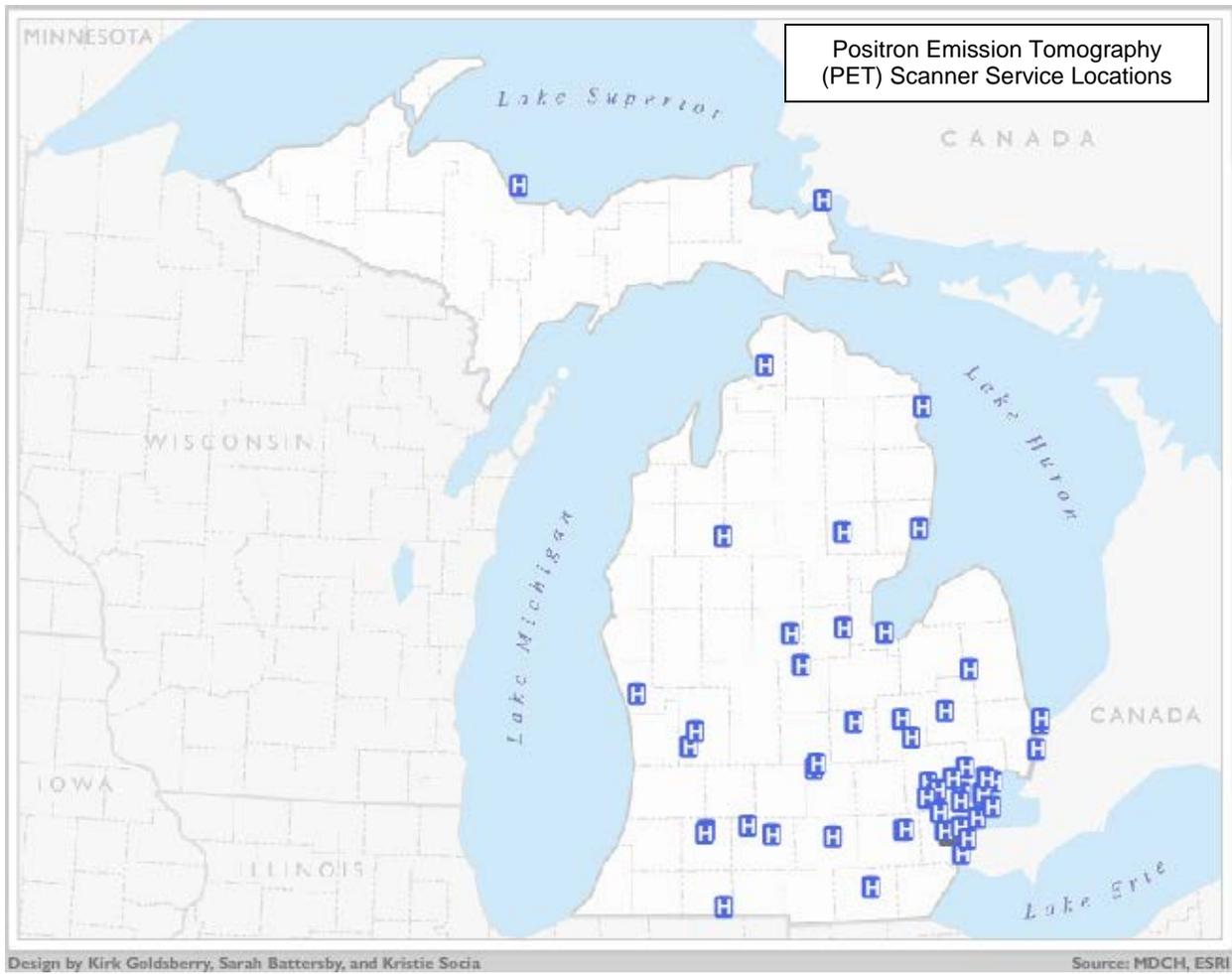




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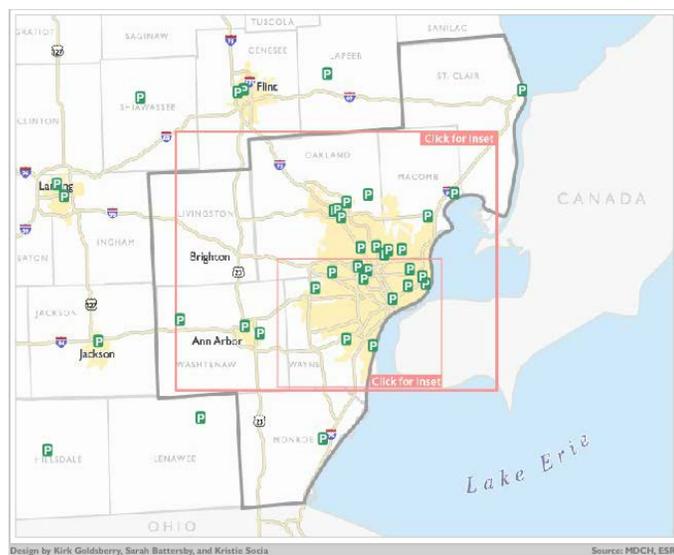
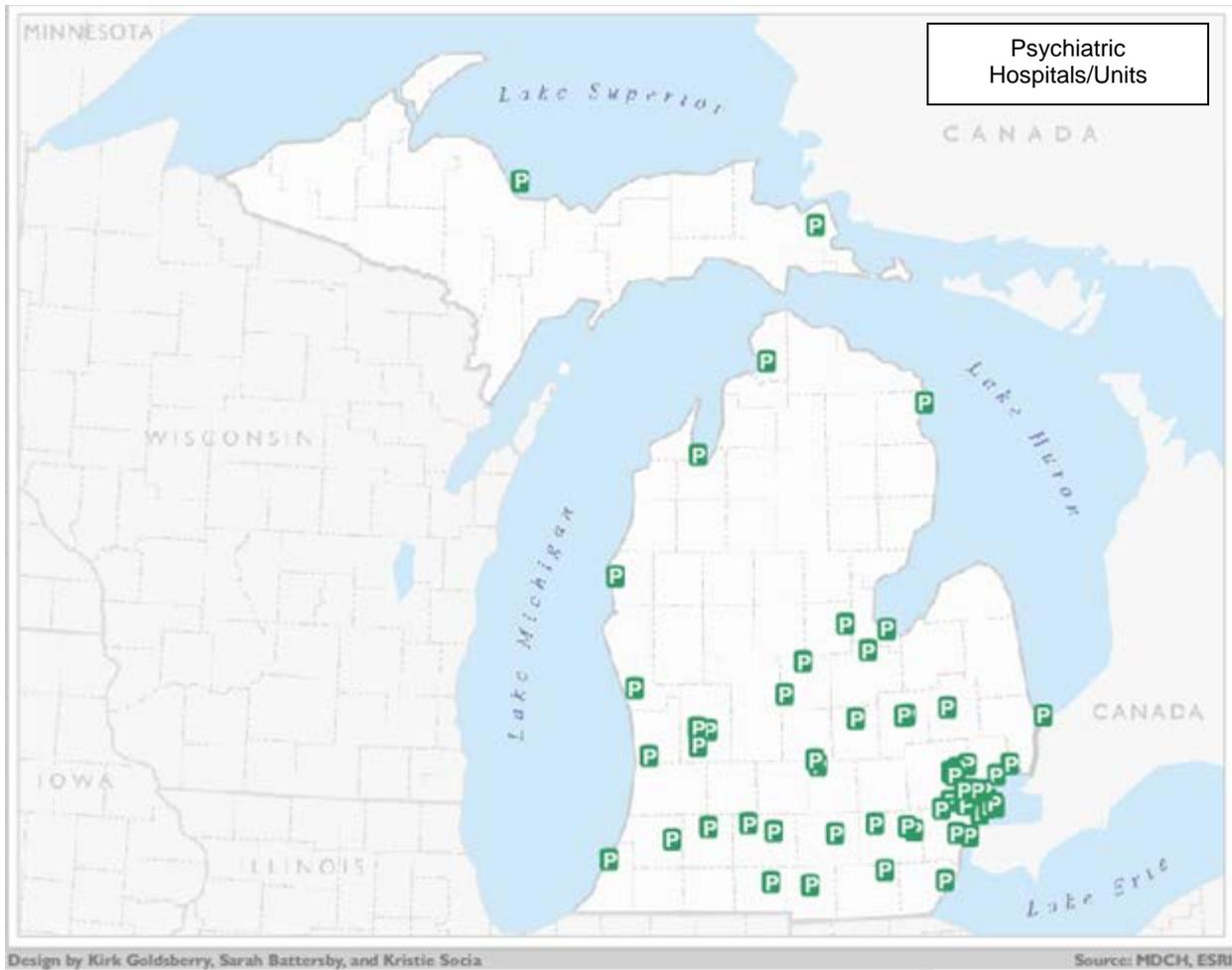
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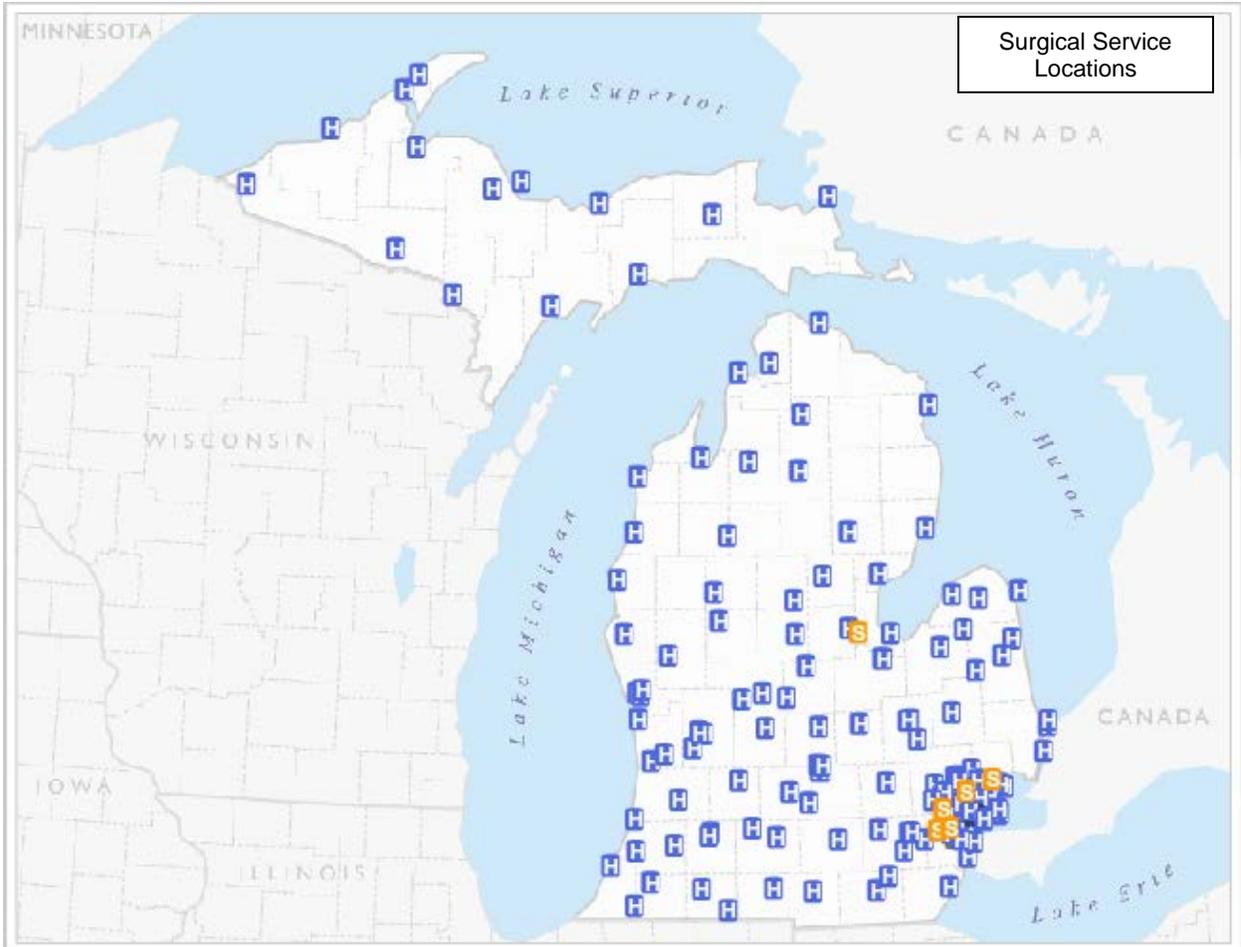
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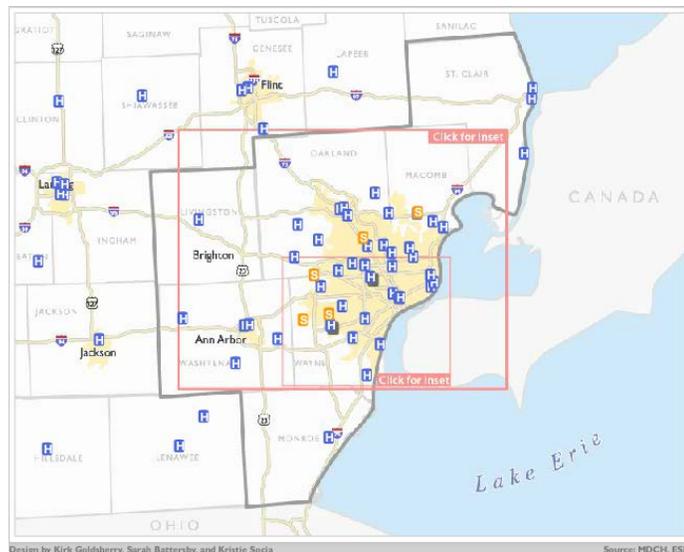
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Surgical Service Locations

Design by Kirk Goldsberry, Sarah Battersby, and Kristie Socia

Source: MDCH, ESRI



Design by Kirk Goldsberry, Sarah Battersby, and Kristie Socia

Source: MDCH, ESRI

Map printed with the permission of MDHHS.

CERTIFICATE OF NEED PROGRAM  
Michigan Department of Health and Human Services  
Summary of Nationwide CON Program Regulation

Overview

The American Health Planning Association publishes the *National Directory: State Certificate of Need Programs and Health Planning Agencies* (Directory) annually. The Directory is intended to provide information about the CON Program and health planning agencies throughout the United States.

According to the Directory, in 2011, 36 states and the District of Columbia continued to administer, to varying degrees, a CON program to regulate health care. The Directory contains information on each of these CON programs, including the medical services being regulated, the CON fees, and the relative scope and reviewability thresholds of CON covered services. The medical services being regulated by CON programs include capital additions, certain medical equipment purchases, and new services.

Medical Services Regulated by CON Programs

According to the American Health Planning Association, in 2011, the 36 states plus the District of Columbia regulated 30 different categories of medical services and medical equipment purchases (those regulated in Michigan are identified with an asterisk):

1. Acute care\*
2. Air ambulance\*
3. Ambulatory surgery centers\*
4. Burn care
5. Cardiac catheterization\*
6. Computed tomography (CT) scanners\*
7. Gamma knives\*
8. Home health
9. Hospice
10. Intermediate care facility for individuals with mental retardation
11. Lithotripsy\*
12. Long-term acute care\*

*This exhibit is continued on next page.*

13. Magnetic resonance imaging (MRI) scanners\*
14. Medical office buildings
15. Mobile hi tech\*
16. Neonatal intensive care unit (NICU)\*
17. Nursing home beds\*
18. Obstetric services
19. Open heart surgery\*
20. Organ transplant\*
21. Positron emission tomography (PET) scanners\*
22. Psychiatric services\*
23. Radiation therapy\*
24. Rehabilitation
25. Renal dialysis
26. Residential care/assisted living
27. Subacute services
28. Substance abuse
29. Swing beds\*
30. Ultrasound

The number of medical service categories regulated by individual states ranged from 1 to 30. Twenty states and the District of Columbia regulate 15 or more of these medical service categories. Sixteen states regulate from 1 to 14 of these medical service categories. Michigan's CON Program regulates 18 different medical service categories.

#### Reviewability Thresholds of CON Covered Services

Most states with CON programs have set "reviewability thresholds" for CON regulated medical services. These thresholds, which vary from state to state, determine which acquisitions of medical services are required to go through the CON process. Some states have not established specific dollar thresholds but instead require that the acquisition of any service regulated by the CON program be subject to CON review. For comparative purposes, we considered only those states that have established specific dollar thresholds.

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For capital additions, the reviewability thresholds among the states with CON programs range from \$600,000 to \$16,083,000. Michigan's reviewability threshold for capital additions effective January 1, 2014 is \$3,160,000 for clinical service areas.

For medical equipment, the reviewability thresholds among the states with CON programs range from \$400,000 to \$6,000,000. Michigan's reviewability threshold requires that any medical equipment regulated by the CON Program be subject to the CON process.

For new services, the reviewability thresholds among the states with CON programs range from \$140,098 to \$1,300,000. Michigan's reviewability threshold requires any new clinical services regulated by the CON Program be subject to the CON process.

## PROGRAM DESCRIPTION

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The CON Program is a State regulatory program intended to balance the cost of, quality of, and access to Michigan's health care system. Its purpose is to ensure that needed services and facilities provide quality health care for State residents. The CON Program provides authorization for a new health facility; a change in bed capacity; the initiation, replacement, or expansion of a covered clinical service; or a covered capital expenditure. Michigan's CON Program is governed by Sections 333.22201 - 333.22260 of the *Michigan Compiled Laws*. The CON Program was originally established by Act 256, P.A. 1972, and was later amended and is now governed by Act 368, P.A. 1978, as amended. See Exhibits 1 through 6 for Michigan CON covered services and their geographic locations.

The National Health Planning and Resources Development Act of 1974 (Health Planning Act) was enacted to help contain health care costs and mandated that certain federal health care funds be made available to the states on the condition that the states enacted CON laws. CON laws were originally intended to bring health care costs under control by preventing certain designated health facilities from expanding unnecessarily, buying duplicative or unneeded costly equipment, or creating duplicative or unnecessary services. CON laws were also intended to ensure the quality of clinical care by limiting the number of providers performing certain complex medical procedures and, thereby, ensuring clinician proficiency. In 1987, the Health Planning Act was repealed and it was left to the discretion of each state as to whether to continue its CON program. Since 1986, 14 states have allowed their CON programs to lapse or have repealed their CON programs. See Exhibit 7 for a comparison of Michigan's CON Program with CON programs nationwide.

The 11-member CON Commission, appointed by the Governor with the advice and consent of the Senate, has the responsibility to develop, approve, disapprove, or revise CON review standards. The CON Program uses the review standards to issue decisions on CON applications.

MDHHS provides administrative support to the CON Commission and carries out the day-to-day CON Program operations. This includes approving or disapproving CON applications consistent with the review standards.

CON Program regulations in Michigan cover certain capital expenditures for construction; proposed increases in the number of licensed hospital beds or relocation of licensed beds from one site to another; acquisitions of health facilities or specialized equipment; operation of new health facilities; and initiation, replacement, or expansion of covered clinical services. In addition, capital expenditure projects (construction, renovation, etc.) that involve a health facility require a CON approval.

During fiscal years 2012 and 2013, the CON Program received 631 applications:

Disposition of CON Applications During Fiscal Years 2012 and 2013		
Disposition	Number of Applicants	Dollar Amount of Projects (in millions)
Approved	505	\$ 1,743.1
Approved with conditions	54	\$ 301.8
Not approved	20	\$ 440.4
Final decision not yet rendered	52	Not available
Total applications	<u>631</u>	

Section 333.22215 of the *Michigan Compiled Laws* requires that CON application fees equal approximately 3/4 of the cost to operate the CON Program. During fiscal year 2013, expenditures to operate the CON Program totaled \$1.8 million. As of December 4, 2014, the CON Program had 12.5 permanent full-time employees.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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<b>AUDIT SCOPE</b>	<p>To examine the program and other records of the Certificate of Need Program. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.</p>
<b>PERIOD</b>	<p>Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2011 through July 31, 2014.</p>
<b>METHODOLOGY</b>	<p>We conducted a preliminary survey of the CON Program's operations to formulate a basis for defining the audit objectives and scope. During our preliminary survey, we:</p> <ul style="list-style-type: none"><li>• Interviewed CON Program management and staff to obtain an overall understanding of the Program, including processes, controls, and monitoring procedures.</li><li>• Reviewed CON laws, policies, and procedures.</li><li>• Examined various records and reports utilized in the CON Program.</li><li>• Reviewed the timeliness of MDHHS processing CON applications.</li></ul>
<b>OBJECTIVE #1</b>	<p>To assess the sufficiency of the CON Commission's efforts to fulfill certain requirements outlined in Section 333.22215 of the <i>Michigan Compiled Laws</i>, including to promote and assure the availability and accessibility of quality health services at a reasonable cost and within a reasonable geographic proximity.</p> <p>To accomplish our first objective, we:</p> <ul style="list-style-type: none"><li>• Interviewed a member of the CON Commission.</li><li>• Reviewed revisions made to a sample of CON review standards.</li><li>• Reviewed meeting minutes of CON Commission meetings.</li></ul>

\* See glossary at end of report for definition.

- Reviewed CON annual activity reports.
- Reviewed correspondence to the joint legislative committee on health policy.

## **OBJECTIVE #2**

To assess the effectiveness of MDHHS's efforts to monitor health facilities' and service providers' compliance with applicable CON provisions.

To accomplish our second objective, we:

- Sampled CON application files.
- Reviewed the time frames of MDHHS follow-up and the submission of required documents.
- Reviewed annual survey reports, which contain data from CON-approved health facilities, and compared these to applicable review standards to determine facility compliance.

## **CONCLUSIONS**

We based our conclusions on our audit efforts as described in the preceding paragraphs and the resulting reportable conditions noted in the background, findings, and recommendations section. The reportable conditions are less severe than a material condition\* but represent opportunities for improvement.

## **AGENCY RESPONSES**

Our audit report contains 3 findings and 3 corresponding recommendations. The CON Commission's preliminary response indicates that it agrees with the recommendation addressed to it, and MDHHS's preliminary response indicates that it agrees with the other two recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

## **PRIOR AUDIT FOLLOW-UP**

We released our prior performance audit of the Certificate of Need Program, Certificate of Need Commission, Department of Community Health (39-644-01L), in April 2002. MDHHS complied with 2 of the 7 prior audit recommendations. We rewrote the other 5 recommendations for inclusion in Findings #1 through #3 of this audit report.

**SUPPLEMENTAL  
INFORMATION**

As part of our audit, we compiled supplemental information about the CON Program (Exhibits 1 through 7). Our audit was not directed toward expressing a conclusion on this information.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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air ambulance	An aircraft capable of providing a patient with treatment at or transportation from the scene of an emergency. An air ambulance may also be used for the inter-facility transport of a patient requiring advanced life support.
cardiac catheterization	A medical diagnostic or therapeutic procedure during which a catheter is inserted into a vein or an artery in a patient and subsequently a physician is able to perform various diagnostic studies and/or therapeutic procedures in the heart.
computed tomography (CT)	An imaging test used to examine the brain, chest, lungs, and other parts of the body for tumors, organ injury, and other problems.
CON	certificate of need.
MDHHS	Michigan Department of Health and Human Services.
Directory	<i>National Directory: State Certificate of Need Programs and Health Planning Agencies.</i>
effectiveness	Success in achieving mission and goals.
Health Planning Act	National Health Planning and Resources Development Act of 1974.
lithotripsy	A procedure for the removal of kidney stones.
magnetic resonance imaging (MRI)	An imagining test that examines soft tissues in the body, such as cartilage and ligaments, or the spine.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
megavoltage radiation therapy (MRT)	A clinical modality in which patients with cancer, other tumors, or cerebrovascular system abnormalities are treated with radiation that is delivered by an MRT unit.

open heart surgery	Any cardiac surgery involving the heart and/or thoracic great vessels that is intended to correct congenital and acquired cardiac and coronary artery disease and/or great vessels and often uses a heart-lung pump or its equivalent to perform the functions of circulation during surgery.
output	A product or a service produced by a program or an entity.
PCI	percutaneous coronary intervention.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
PIPR	project implementation progress report.
positron emission tomography (PET)	An imaging test that can track biochemical changes and visualize any region of the body. Among other uses, PET can detect certain types of cancer, evaluate the amount of muscle damage after a heart attack, and assess the effectiveness of chemotherapy drugs on specific tissue.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
transplant	Medical transplant procedures that are regulated by Michigan's CON Program, including bone marrow, heart and lung, and liver transplants.



