

Office of the Auditor General  
Follow-Up Report on Prior Audit Recommendations

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**Health Facility Licensing, Permits, and  
Support Division**

Bureau of Community and Health Systems  
Department of Licensing and Regulatory Affairs

December 2017

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*Article IV, Section 53 of the Michigan Constitution*

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## Report Summary

### *Follow-Up Report*

*Health Facility Licensing, Permits, and  
Support Division (HFLPSD)*

*Bureau of Community and Health Systems  
Department of Licensing and Regulatory  
Affairs*

**Report Number:**  
**641-0450-14F**

**Released:**  
**December 2017**

We conducted this follow-up to determine whether HFLPSD had taken appropriate corrective measures in response to the two material conditions noted in our March 2014 audit report.

Prior Audit Information	Follow-Up Results	
	Conclusion	Agency Preliminary Response
Finding #1 - Material condition  Required inspections should be conducted prior to renewing substance abuse treatment program licenses.  Related data accuracy needs improvement.  Agency agreed.	No longer applicable.  Complied.	Not applicable
Finding #2 - Material condition  Clinical laboratory licensing practices and requirements need to be addressed.  Agency agreed.	Complied.	Not applicable

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

December 5, 2017

Ms. Shelly Edgerton, Director  
Department of Licensing and Regulatory Affairs  
Ottawa Building  
Lansing, Michigan

Dear Ms. Edgerton:

This is our follow-up report on the two material conditions (Findings #1 and #2) and three corresponding recommendations reported in the performance audit of the Health Facilities Division, Bureau of Health Care Services, Department of Licensing and Regulatory Affairs. That audit report was issued and distributed in March 2014. Additional copies are available on request or at [audgen.michigan.gov](http://audgen.michigan.gov).

We appreciate the courtesy and cooperation extended to us during our follow-up. If you have any questions, please call me or Laura J. Hirst, CPA, Deputy Auditor General.

Sincerely,

Doug Ringler  
Auditor General

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## **INTRODUCTION, PURPOSE OF FOLLOW-UP, AND AGENCY DESCRIPTION**

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### **INTRODUCTION**

This report contains the results of our follow-up of the two material conditions\* (Findings #1 and #2) and three corresponding recommendations reported in our performance audit\* of the Health Facilities Division (HFD), Bureau of Health Care Services (BHCS), Department of Licensing and Regulatory Affairs (LARA), issued in March 2014.

In July 2015, subsequent to our performance audit, LARA reorganized and renamed HFD and BHCS as the Health Facility Licensing, Permits, and Support Division (HFLPSD), Bureau of Community and Health Systems.

### **PURPOSE OF FOLLOW-UP**

To determine whether HFLPSD had taken appropriate corrective measures to address our corresponding recommendations.

### **AGENCY DESCRIPTION**

HFLPSD's mission\* is to protect the health, safety, and welfare of individuals receiving care and services through State licensed health facilities, including surgical facilities, hospice residences, hospitals, nursing homes, and substance use disorder (SUD) programs. HFLPSD is responsible for issuing and renewing State licenses, conducting initial and routine inspections, and investigating complaints related to licensed health facilities, agencies, and programs. During 2016, HFLPSD conducted 697 initial and routine inspections and complaint investigations of the approximately 2,110 licensed health care facilities in the State.

As of August 31, 2017, HFLPSD had 86 full-time equated employees.

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

# PRIOR AUDIT FINDINGS AND RECOMMENDATIONS, AGENCY PLAN TO COMPLY, AND FOLLOW-UP CONCLUSIONS

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## FINDING #1

Audit Finding Classification: Material condition.

Summary of the March 2014 Finding:

HFD renewed licenses of 1,213 (97.2%) of the 1,248 substance abuse treatment programs without conducting the required inspections within three months of the license expiration. In addition, HFD's database did not contain accurate licensure status information for 50.0% of the programs tested.

Recommendations Reported in March 2014:

We recommended that HFD conduct statutorily required State inspections of substance abuse treatment programs prior to renewing their licenses.

We again recommended that HFD ensure that its data systems contain accurate information for substance abuse treatment programs.

## AGENCY PLAN TO COMPLY\*

On June 5, 2014, BHCS indicated that it reassigned the State licensing activities to the newly created State Licensing Section (SLS) and that LARA requested updates to the applicable Substance Abuse Licensing Administrative Rules that would revise the inspection schedule for licensed substance abuse programs from annual to triennial. BHCS also indicated that it began a process to require annual license renewals of substance abuse disorder programs, which would provide the information needed to update the licensee data system.

## FOLLOW-UP CONCLUSIONS

Conclusion for first recommendation - No longer applicable.

Our follow-up for the first recommendation noted that Public Act 104 of 2015, effective October 1, 2015, amended the Public Health Code to require at least 1 visit to each licensed SUD program (formerly known as substance abuse treatment programs) every 3 years for inspection and evaluation for the purpose of licensure. Therefore, the new legislation effectively superseded the *Michigan Administrative Code* requirement that programs pass inspection before HFD renewed the license.

We also noted that SLS implemented the new triennial inspection planning schedule for all SUD programs and had hired an additional inspector as of January 1, 2016. In addition, as of August 7, 2017, SLS had inspected 516 (48.5%) of the 1,064 SUD programs that were active as of January 1, 2016 and was on track to complete the remaining 548 inspections in compliance with the revised law.

\*See glossary at end of report for definition.

Conclusion for second recommendation - Complied.

Our follow-up for the second recommendation noted that the annual license renewal process for SUD programs, as required by Public Act 104 of 2015 and as implemented by SLS, helped to ensure that information on SLS's licensee data systems was current and accurate.

**FINDING #2**

Audit Finding Classification: Material condition.

Summary of the March 2014 Finding:

HFD had not issued State licenses to any of the 7,906 federally certified clinical laboratories operating in Michigan and had not conducted the required biennial visits for 7,037 (89.0%) of these laboratories.

Recommendation Reported in March 2014:

We again recommended that HFD either issue statutorily required licenses to clinical laboratories operating in Michigan or obtain amendatory legislation to suspend the State licensing of clinical laboratories and place reliance on the federal clinical laboratory certification procedures.

**AGENCY PLAN TO COMPLY**

On June 5, 2014, BHCS indicated that LARA submitted a recommendation to the Legislature to rescind sections of the Public Health Code requiring State licensure of clinical laboratories.

**FOLLOW-UP CONCLUSION**

Complied.

Our follow-up noted that Public Act 104 of 2015, effective October 1, 2015, rescinded the section of the Public Health Code that required State licensing of clinical laboratories.

## **FOLLOW-UP METHODOLOGY AND PERIOD**

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### **FOLLOW-UP METHODOLOGY**

We obtained SLS's corrective action plan; reviewed new and updated legislation, policies, and procedures; and interviewed SLS personnel. Specifically, for:

1. Finding #1, we:

- Identified the population of active SUD programs, obtained the SUD program inspection checklist and planning schedule, and performed an analysis of inspections completed since January 1, 2016.
- Reviewed inspection documentation for 30 of the 516 SUD programs that were active as of and had been inspected since January 1, 2016.
- Conducted an aging analysis and identified the high-risk programs of the 548 SUD programs that were active as of and had not been inspected since January 1, 2016.
- Reviewed the accuracy of the 1,190 SUD programs that were active as of August 29, 2017 by identifying their last license renewal fee payment date.

2. Finding #2, we:

- Reviewed the legislation that rescinded the State's requirement to license clinical laboratories.
- Reviewed documentation related to SLS's inspections and certifications of clinical laboratories located in Michigan.

### **PERIOD**

Our follow-up generally covered January 1, 2016 through September 7, 2017.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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<b>agency plan to comply</b>	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and to submit the plan 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.
<b>BHCS</b>	Bureau of Health Care Services.
<b>HFD</b>	Health Facilities Division.
<b>HFLPSD</b>	Health Facility Licensing, Permits, and Support Division.
<b>LARA</b>	Department of Licensing and Regulatory Affairs.
<b>material condition</b>	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.
<b>mission</b>	The main purpose of a program or an entity or the reason that the program or the entity was established.
<b>performance audit</b>	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.
<b>SLS</b>	State Licensing Section.
<b>SUD</b>	substance use disorder.







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