

**PERFORMANCE AUDIT OF  
THE CERTIFICATE OF NEED  
PROGRAM**

**PROPOSED FINAL REPORT**

**REPORT DIGEST**

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STATE OF WASHINGTON

JOINT LEGISLATIVE AUDIT AND  
REVIEW COMMITTEE

**STUDY TEAM**

LISA JEREMIAH  
CYNTHIA L. FORLAND, PH.D.  
JOHN BOWDEN

**LEGISLATIVE AUDITOR**

RUTA FANNING

Copies of Final reports and Digests are  
available on the JLARC website at:

<http://jlarc.leg.wa.gov>

or contact

Joint Legislative Audit & Review Committee  
506 16<sup>th</sup> Avenue SE  
Olympia, WA 98501-2323  
(360) 786-5171  
(360) 786-5180 FAX

## Background

In 1971, the Legislature created the Certificate of Need program in response to growing medical costs. Legislators were concerned about how the number and location of health care facilities and services affects health care costs.

The program reviews proposals for certain health care facilities and services before they can begin operation. Proposed projects are reviewed to ensure that they meet a community need, will provide quality services, and are financially feasible and will foster containment of health care costs.

From 2000 through 2005, Department of Health staff reviewed 156 applications. Of the 120 decisions reached and finalized by the end of 2005, **88 percent** were approved. Of these decisions, **30 percent** were appealed. Only two of those decisions have been overturned by a judge.

Engrossed Second Substitute House Bill 1688 (2005) directed the Joint Legislative Audit and Review Committee (JLARC) to conduct a performance audit of the Department of Health's (DOH) administration of the Certificate of Need program. The same bill created a task force to study and prepare recommendations on improving and updating the state's Certificate of Need program. The task force is to consider the results of JLARC's audit in developing its recommendations.

## Study Objectives

For this study, JLARC reviewed:

- The process for reviewing applications;
- The consistency of decisions with statute and with each other;
- How the agency monitors approved projects; and
- How the agency measures the performance of the program.

## Process and Timeliness

There are several steps in reviewing all Certificate of Need applications. Statute and rule define the amount of time that each major step should take. However, we found that the program is not consistently meeting deadlines established in statute and rule. The Department is not reaching decisions within statutory timeframes on 64 percent of applications.

## Consistency of Decisions

**Are decisions consistent with statute?** Statute lists the criteria that the Department of Health must use in making decisions. Certificate of Need program staff are fully applying several of these criteria, but there are also several criteria that program staff are only partially applying.

**Are program staff consistent in the types of analysis they are doing?** Program staff did not consistently cite the same data sources in their analyses of applications for similar facilities or services. However, some of those differences were due to the differences among the specifics of proposed projects. Additionally, more information is available from state agencies for facilities that are licensed by the state than facilities that are not.

**Are final decisions consistent with each other?** Since Certificate of Need program staff maintain limited historical electronic data on their analysis and final decision on applications and the specifics of proposed projects vary, it is very difficult to reach any conclusions about the consistency of those analyses and final decisions over time. In our review of individual applications, we did not see signs of inconsistencies in the final decisions on applications.

## Monitoring Approved Projects

Statute requires the Department of Health to monitor approved projects to ensure conformance with issued Certificates of Need, but program staff only monitor projects that are uncompleted, even if the Certificate of Need has not expired. A common condition on many Certificates of Need is for the facility to provide charity care, but since program staff do not monitor completed projects, they are unable to ensure that providers meet this requirement.

## Measuring Program Performance

The Department of Health's one performance measure for the Certificate of Need program is the timeliness of decisions, but this is not reported to the public. Program staff produce a monthly status report on current applications that they mail to subscribers for a fee, but do not make that report available on the program's webpage. This makes it difficult for the public to easily access information on the program.

## Recommendations

1. The Department of Health should identify strategies for meeting established statutory timelines for Certificate of Need applications.
2. DOH should identify strategies to ensure that all statutory criteria for reviewing Certificate of Need applications are fully applied. The Department may also recommend amendments to statutory criteria, if necessary, to reflect the state's current health care system.
3. The Legislature should consider establishing consistent basic reporting requirements for all services and facilities that are subject to Certificate of Need review so that information related to each type of application will be readily available and reliable.
4. To ensure ongoing consistency in both the analysis and final decisions for Certificate of Need applications, DOH should perform regular and ongoing reviews of program staff's application reviews and issued decisions.
5. DOH should revise its monitoring practices to include completed projects, as appropriate, to ensure applicants' compliance with issued Certificates of Need in accordance with statute.
6. DOH should better use the Certificate of Need program's website to make more information on program activities and application forms available to the public.