



May 29, 2012

Ms. Katharyn Barron, Division Chief  
Consumer Protection Division and  
Charitable Trust Section  
Department of Attorney General  
State of Michigan

Dear Ms. Barron:

The purpose of this letter is to report Legacy DMC's status with respect to its responsibilities as stated in Article 3 of the Monitoring and Compliance Agreement among the Department of Attorney General, Legacy DMC, VHS of Michigan, Inc. and Vanguard Health Systems, Inc. This agreement supplements the Purchase and Sales Agreement (PSA) and defines various requirements relating to the Post-Closing Covenants contained in the PSA. This letter also makes reference to the Enforcement Agreement among the Department of Attorney General, Legacy DMC, VHS of Michigan and Vanguard Health System, Inc. ("Enforcement Agreement").

ARTICLE 3 – "Legacy DMC Monitoring Responsibilities"

This article contains five specific monitoring responsibilities (Items A through E) as discussed below:

**Item A** requires Legacy DMC to monitor VHS of Michigan's compliance with seven of the 20 Post-Closing Covenants contained in the PSA. The Enforcement Agreement adds an additional covenant – bringing to eight the total number of covenants being monitored by Legacy DMC. Attachment 1 lists the 20 PSA Covenants and provides references to the related monitoring and reporting requirements contained in the agreements. Legacy DMC believes it has diligently monitored compliance with the Covenants. VHS of Michigan's Annual Report, which will be provided to your office with our comments in a separate letter, provides the status of 15 commitments at the end of 2011.

**Item B** identifies certain reports and other information that VHS of Michigan is required to provide to Legacy DMC so that it can carry out its monitoring obligations; it also provides for a confidentiality agreement. The status of the three specific elements is as follows:

- i. Exhibit B to the Monitoring Agreement requires submission of 18 reports; all have been received. Legacy DMC asked the Department of Health Management and Policy at the University of Michigan to assist with the review of these reports and to reference report content to specific Covenants. As a result of this review, Legacy DMC will recommend revisions to the Exhibit B requirements to focus on the more significant and useful information and to simplify administration.

- ii. VHS of Michigan is required to provide additional "ordinary course of business" information if requested. There have been numerous such requests and responses. The process for responding to certain requests, however, can be slow and bureaucratic. Legacy DMC will recommend process changes to improve response times.
- iii. VHS of Michigan requested an agreement to keep proprietary and sensitive information private as provided in this item. A confidentiality agreement was completed in November 2011 after lengthy negotiations. Currently, Mr. Conrad Mallett serves as the "DMC Officer" responsible for determining confidentiality. VHS of Michigan's 2011 Report classified information useful in understanding several key covenants as confidential.

**Item C** requires Legacy DMC to establish a public complaint-intake procedure, to review all complaints and to investigate complaints, if appropriate. Legacy DMC complied with this requirement by establishing and publicizing a telephone hotline, a permanent email address, and a dedicated mailing address. The Legacy DMC hotline is administered by a third-party which provides personal response service during standard business hours and automated response and logging for follow-up for all other time periods (24/7). The same service manages all email and standard mail. Every contact is logged. Legacy DMC staff reviews all logs and calls and takes appropriate action.

Attachment 2 provides a copy of the notification that appears in approximately 76 locations throughout the DMC hospitals, including all emergency rooms and all patient notice boards that contain similar postings relating to VHS of Michigan's financial assistance and patient billing complaint hotlines. To increase awareness, Legacy DMC also advertised the hotline in major newspapers servicing the Detroit metropolitan area in December 2011.

The hotline has been in place since November 2011. Volume during this period has been minimal (between 2 and 3 calls/contacts a week). More importantly, the contacts have provided little useful information for evaluating the effectiveness of VHS of Michigan's charitable care program. Out of the 53 contacts received during the 26 weeks the intake procedure has been in place, only three actionable cases have been identified. None were indicative of a systemic problem relating to VHS of Michigan's compliance.

The information received supports the view that VHS of Michigan is providing patient treatment that is consistent with the charitable care policy that it implemented in January 2011. Legacy DMC is evaluating additional complaint intake approaches to address concerns that indigent patients may be unable or unwilling to utilize the current process to make us aware of problems.

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**Item D** requires Legacy DMC staff to report monthly to the Legacy DMC Board of Trustees regarding VHS of Michigan's compliance with the Post-Closing Covenants. During 2011, the Legacy DMC Board met ten times. Compliance was discussed at each meeting. Legacy DMC staff developed report templates which focused on four critical commitments: the two relating to capital spending, the implementation of the more benevolent charitable care policy, and the commitment to maintain hospitals and specific key services.

The CEO of VHS of Michigan, Mr. Michael Duggan, attended two meetings to report on the progress of the capital investment program, which was experiencing spending delays as discussed in VHS of Michigan's 2011 Report.


During 2012, Legacy DMC's Board of Trustees plans to meet quarterly to review updated information on these four key commitments. Legacy DMC staff will alert the Trustees of material changes or serious compliance issues during interim months.

**Item E** requires Legacy DMC to produce a written report annually and to post it on a website. The related timing requirement has been extended with the approval of the Department of Attorney General. Legacy DMC appreciates the additional time to work with VHS of Michigan to establish a high standard for these annual reports. The revised deadline of May 30, 2012 will be met. Attachments 3 and 4 provide copies of the Legacy DMC's request and the Department of Attorney General's approval to extend the timing for the 2011 report.

### **Conclusion**

Legacy DMC believes the requirements of Article 3 (as modified) have been met for 2011, the first year of the agreement. There are a number of areas with potential for improved effectiveness as noted above. Legacy DMC will work with VHS of Michigan to achieve these improvements; it is also working with other constituencies to ensure that the complaint intake procedure fulfills its objective. Next year's report will provide an update on these efforts.

Sincerely,

  
Joe Walsh  
President

# POST CLOSING COVENANTS

## (15 Vanguard Reporting Requirements Underlined)

Section	PSA Commitments	Monitoring References		
12.1	Buyer Advisory Board, Hospital Advisory Board			
12.2	<u>Indigent and Low Income Care</u>	E	M	Q
12.3	<u>Commitment to Maintain Hospitals and Core Services</u>	E	M	Q
12.4	<u>Capital Expenditures</u>	E	M	Q
12.5	<u>The Warrant</u>	E		
12.6	Retention of Medical Staff			
12.7	<u>No Sale of Hospitals</u>	E	M	Q
12.8	<u>Commitment to Education</u>			
12.9	<u>Commitment to Research</u>			
12.10	<u>Karmanos Center</u>			
12.11	<u>Health and Wellness Initiatives</u>			
12.12	<u>Supplier Diversity Program</u>			
12.13	<u>Project Genesis</u>			
12.14	<u>Detroit-based Systems</u>	E	M	
12.15	<u>National Support Centers</u>	E	M	
12.16	<u>Naming Conventions</u>			
12.17	<u>Annual Reporting Requirements</u>	E	M	
12.18	Post-Closing Assistance to Seller			
12.19	Renaissance Sub-zone			
12.20	Donor-restricted Funds			

**Purchase and Sale Agreement** – Article 12 identifies 20 Post Closing Covenants

**E – Enforcement Agreement** – supplemental agreement among Vanguard, DMC and Attorney General (AG) where parties recognize enforcement right by AG to certain remedies beyond those specified in the PSA (identified by “E” above). PSA remedies for any disagreement are primarily mediation/arbitration.

**M – Monitoring Agreement** – supplemental agreement among Vanguard, DMC and AG specifying responsibilities for Monitoring certain covenants (identified by “M” above) and information necessary to support Monitoring, as well as requiring identification of any potential conflict of interest and defining aspects of Legacy Board structure and operation.

**Q – Interim Quarterly Status Report** – Legacy DMC and VHS-M have agreed to certain Interim Quarterly Status Reports (identified by “Q” above), in part to carry out Monitoring Agreement responsibilities.

**Legacy DMC  
is committed to the City of Detroit**

**Legacy DMC is committed to ensuring that the hospitals of Detroit Medical Center will honor their charity commitments.**

**If your personal experience has raised a question or concern about these commitments, you may contact the Legacy DMC Hotline or the Legacy DMC e-mail.**

**Toll Free: 1-866-683-2427  
LegacyDMCHotline@gmail.com**

# Legacy DMC

April 11, 2012

Mr. Bill Schuette  
Attorney General  
State of Michigan  
P.O. Box 30212  
Lansing, MI 48909

Subject: Legacy DMC - First Annual Report

Dear Mr. Schuette:

This letter provides information on several issues relating to VHS of Michigan, Inc.'s (Vanguard's) first annual compliance report and proposes that the deadline for Legacy DMC's public report be extended six weeks (from April 15 to May 30). Because this deadline was established in an agreement with your office (see Exh. 1, Monitoring and Compliance Agreement, paragraph (3)(E)(ii), your affirmation consent is required.

The Legacy DMC Board of Trustees and I believe a short extension would be in the best interest of the public, because it would allow Vanguard sufficient time to respond to requests from Legacy DMC's trustees for additional information and explanations, which should result in a more detailed and thorough report.

## Background and Discussion

Vanguard provided its report on 2011 DMC operations to Legacy DMC on February 29, 2012. Following an intensive internal review, on March 26, 2012, Legacy DMC Compliance Consultant, Stephen Lalka and I reviewed non-confidential aspects of the report with your staff. Issues included shortfalls to capital spending targets, limited information on the impact of the charitable care policy, and the extent of confidentiality requested by Vanguard. On March 28, 2012, Mr. Conrad Mallet, Chief Administrative Officer, presented Vanguard's report and responded to questioning by Legacy DMC's trustees.

At the meeting, the trustees requested that Vanguard provide additional information on research projects and the financial impact of implementing the most benevolent policy for indigent care in use at any Vanguard hospital nationwide and, in particular, the trustees requested a year-over-year comparison of patient cases, charity care expense and bad debt expense, as well as an expanded discussion of the "... more than 900 active ... projects" mentioned by Vanguard. Additional exhibits may be needed to clarify these items.

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Legacy DMC also suggested that a Vanguard executive (possibly Mr. Duggan) present Vanguard's compliance results to the public, because a Vanguard spokesperson is in the best position to explain the shortfalls on the two capital spending targets during 2011 and the ramp-up of related spending rates in 2012. (By contrast, Legacy DMC can only publish Vanguard's report "as is" and offer its own commentary; it will not be in a position to provide the same degree of background information and interpretation as a Vanguard executive.)

The Legacy DMC trustees also urged Vanguard to make more of its report available to the public. (At present, Exhibits A, B, C, D and E are classified as confidential.) The Confidentiality Agreement between Legacy DMC and Vanguard requires Vanguard to provide an explanation of the rationale and time frame for each item classified as confidential. Legacy DMC will comment extensively on this issue unless Vanguard agrees to revise its confidential designation of certain material.

A further consideration supporting the extension is the trustee's desire to establish a high standard for the content and disclosures in Legacy DMC's first annual report, which will set a precedent for reports in future years. We believe that Vanguard will respond positively to the trustees' suggestions and that the quality of the final product will justify the brief postponement we are now requesting.

Finally, a short extension would also provide additional time for new Legacy DMC trustees to familiarize themselves with complex issues and participate fully in the preparation of the report.

Thank you for your consideration if this matter,

  
Joe Walsh  
President



BILL SCHUETTE  
ATTORNEY GENERAL  
STATE OF MICHIGAN

April 12, 2012

Joseph M. Walsh, President and CEO  
Legacy DMC  
3663 Woodward Avenue  
Detroit, Michigan 48201

Re: Legacy DMC's Request to Extend Deadline to Publish its  
2011 Annual Report


Dear Mr. Walsh:

I have reviewed your letter of April 11, 2012, in which you requested an extension for submitting Legacy DMC's first annual compliance report. I am pleased to grant your request.

I share Legacy DMC's desire to set a high standard for future annual reports. Moreover, with the complexities of the transaction and the need to create a new monitoring and reporting system, I understand that the first report requires exceptional levels of time and effort from all parties.

For these reasons and those detailed in your letter, a brief extension is justified and reasonable. I am pleased to extend the deadline for submitting your annual report from April 15, 2012 to May 30, 2012.

Sincerely yours,

  
Bill Schuette  
Attorney General

WDS/wrb