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GOVERNANCE SERIES

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Hot Topics in Compliance and Corporate Responsibility for Health Center Boards of Directors

Corporate responsibility guidance and policy aimed at the nonprofit sector have expanded significantly over the last several years. Amidst increasing concerns about the troubled economy and the federal deficit, and the public outcry regarding the secret manipulations of the markets by unethical individuals and firms, the Obama administration has made transparency and accountability among both for-profit and charitable nonprofit organizations a top priority. Given this greater emphasis on fiscal responsibility and ethics, health centers must be vigilant about their compliance-related responsibilities.

Health center governing Boards of Directors are statutorily obligated to assure that the health center is operated in compliance with applicable federal, state and local laws and regulations.¹ Further, community health center boards, must exercise certain fiduciary duties in overseeing and monitoring the organization, including approving the health center's budget and grant application, adopting fiscal management policies and practices, engaging in strategic and capital planning, hiring the Executive Director, and determining the Executive Director's compensation. Thus, **to fulfill their statutory duties and responsibilities as organizational stewards, board members must be familiar with recent corporate responsibility guidance and, in particular, how this guidance impacts the board members' decision-making and oversight authorities.** Maintaining an understanding of corporate responsibility principles also equips board members with the knowledge and tools to evaluate and improve upon their own governance practices.

¹ See 42 C.F.R. § 51c.304(d)(3)(v).

This Information Bulletin is intended to serve as a supplement to the October 2005 Governance Information Bulletin #10, *Translating Corporate “Responsibility” Legislation and Guidance into Good Governance*,² which primarily addressed Sarbanes Oxley.³ Board members are encouraged to review the October 2005 Information Bulletin for additional information.

This Information Bulletin reviews recent federal updates in corporate responsibility and provides board members with action steps and recommendations for good governance practices.⁴ In particular, this Information Bulletin explores:

- ◆ **Accountability and transparency requirements** under the American Recovery and Reinvestment Act relevant to corporate responsibility.⁵
- ◆ Initiatives by the Internal Revenue Service (IRS) regarding **corporate responsibility for tax-exempt organizations**, including:
 - Revisions to the IRS information return for tax exempt organizations, Form 990;
 - IRS initiatives related to establishing executive compensation; and
 - Recent developments in corporate responsibility-related “good governance” guidance issued by the IRS.
- ◆ Recent **compliance-related voluntary guidance from the Office of Inspector General (OIG)** addressing health care quality requirements.
- ◆ **Best practice proposals** related to corporate responsibility suggested by the private sector.

ACCOUNTABILITY AND TRANSPARENCY REQUIREMENTS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT

On February 17, 2009, President Obama signed into law an economic stimulus measure entitled the American Recovery and Reinvestment Act (ARRA).⁶ The law contains several major initiatives related to health centers, including \$2 billion in grants to health centers to support comprehensive primary and preventive health care to an increasing number of patients; to create or retain thousands of health center jobs; and to support pressing capital improvement needs, such as construction, repair, renovation, and equipment purchases (including health information technology systems). Each ARRA grant is a one-time only award available for a two-year project period.

Although ARRA offers health centers great opportunities, it also brings with it a high level of responsibility to assure accountability and transparency with respect to grant expenditures. With the influx of significant new funding, now, more than ever, community health centers are “front and center.” Ultimately, the way in which community health centers expend their ARRA funds will be subject to intense scrutiny and all individuals involved—from

2 “*Translating Corporate “Responsibility” Legislation and Guidance into Good Governance*” is available on-line.

3 Sarbanes-Oxley Act of 2002 (Pub.L. 107-204, 116 Stat. 745, enacted July 30, 2002).

4 This Information Bulletin does not discuss state-specific corporate responsibility legislation. Health center Boards of Directors are advised to consult with legal counsel regarding the impact of state legislation on their health center.

5 See Public Law 111-5.

6 See Public Law 111-5.

the board to the management team to the staff—must be prepared to assume the ensuing responsibilities.

Board members should think of each ARRA grant as a separate funding stream, as opposed to an expansion of their health center's base grant (similar to other grant awards, such as funds under the Ryan White Care Act). This does not mean that ARRA funds cannot be used in conjunction with Section 330 funds to support specific services or programs. Rather, it means that there must be a separate system for managing and tracking ARRA funds. Examples include (but are not limited to):

- ◆ Performance objectives relating to each specific ARRA award must be separately tracked, measured and reported.
- ◆ The funds awarded under each ARRA grant should be sufficiently segregated through internal control systems (*e.g.*, cost centers, ledgers, bank accounts, *etc.*) to allow the health center to comply with reporting requirements specific to ARRA.

Accountability – Government-Wide Reporting Requirements

Based on data obtained through the separate tracking systems, all recipients of ARRA funds, including health centers, must submit government-wide reports on a quarterly basis, due 10 days after the end of each quarter starting with October 10, 2009.⁷ These reports must document the uses and outcomes of the ARRA funds. Specifically, the reports must include the following information about each ARRA award:

- ◆ Total amount of ARRA funds received under the award;
- ◆ Amount of ARRA funds received under the award that were expended or obligated at the time of the report;

- ◆ Detailed list of all projects or activities for which ARRA funds under the award were expended or obligated, including: 1) the name and description of the project or activity; 2) an evaluation of the completion status of the project or activity; 3) an estimate of the number of jobs created and/or retained by the project or activity; and 4) additional information for infrastructure investments made by State and local governments; and
- ◆ Detailed information on any subcontracts or sub-grants awarded by the recipient, consistent with and including data elements required by the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282).

⁷ On June 22, 2009, the Office of Management and Budget published “*Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*,” which addresses the government-wide quarterly reporting requirements. The Implementing Guidance is available on-line at www.whitehouse.gov/omb/. Since the June 22, 2009 guidance, additional documents clarifying the submission process have been issued, including a set of Frequently Asked Questions (FAQs) related to the June 22 implementing guidance; a preview of the Data Dictionary describing the data elements which recipients will report; and templates for submitting data.

These additional materials are posted on the main recovery website at www.recovery.gov/?q=content/recipient-reporting.

Accountability – HRSA Grantee Reporting Requirements

In addition to the government-wide reports, the Health Resources and Services Administration (HRSA) requires submission of quarterly “program-specific” reports starting July 10, 2009.⁸ The program-specific reports require information addressing the health center’s “performance elements” related to the expenditure and use of the funds awarded under each ARRA grant. While the performance elements differ for each type of ARRA grant awarded by HRSA, an element common to all awards is the reporting of job-related statistics - the number of new jobs created (either new or previously existing unfilled positions) and the number of jobs retained (previously existing filled positions that were scheduled for termination or that would have been cut, in whole or in part, but have not yet been terminated or cut).

Transparency Requirements

To ensure transparency, information from government-wide ARRA reports will be available for public examination through posting on-line to the main ARRA website, www.recovery.gov.⁹ Members of the public will be able to review how ARRA grant recipients (including health centers) used their stimulus funds, and whether such projects satisfied their stated objectives. Accordingly, it is critical that the information is accurate and demonstrates the community benefit achieved.

Action steps related to accountability and transparency requirements under ARRA:

Every health center board has fiduciary and statutory duties to oversee and monitor the health center’s use of *all* federal funds, including those received through ARRA. Understanding and shouldering these responsibilities is merely accentuated in connection with stimulus fund expenditures

because transparency and accountability provisions are critical elements of ARRA.

Specific board member actions include:

- ◆ Establish priorities for the expenditure of ARRA funds.
- ◆ Receive frequent updates from the health center’s management team regarding the receipt and use of any ARRA funds (as well as other funds) to ensure consistency with board approved priorities and to confirm that ARRA funds, expenditures and activities are separately tracked.
- ◆ Review information included in the ARRA progress reports prior to submission to assure that the priorities the health center committed to in the applications for ARRA funds and that the public benefits achieved by virtue of these funds are reported clearly, accurately, and in a timely manner.

INITIATIVES BY THE INTERNAL REVENUE SERVICE

Among the federal agencies, the IRS has been particularly active in the corporate responsibility arena over the past five years, primarily spurred by Congress’ and the IRS’ belief that governance practices influence compliance with nonprofit tax law. The IRS

8 Health centers will submit one program-specific Health Center Quarterly Report (HCQR) per quarter, which will be comprised of separate sections for each ARRA award. The HCQR will be entered into the HRSA’s existing Electronic Handbook system. Reporting instructions and data elements are explained in the HCQR Manual which is available on-line at <http://bphc.hrsa.gov/recovery/>. Additional guidance on developing and submitting the HRSA quarterly reports is provided in the Bureau of Primary Health Care (BPHC) Program Assistance Letter 2009-08, *Health Center Quarterly Reporting for the American Recovery and Reinvestment Act*, available on-line at <http://bphc.hrsa.gov/>.

9 The information from the program-specific reports submitted to HRSA will be used by the agency to report on and demonstrate the impact of health center activities funded under ARRA.

is focused on addressing concerns about abuses in the tax-exempt community, including, but not limited to excess benefits to board members and executives, illegal intervention in political campaigns, and participation in illegal tax shelter schemes.

Revisions to the IRS Information Return for Tax-Exempt Organizations, Form 990

The IRS believes that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets, and serve charitable interests than one with poor or lax governance. To assess a tax-exempt organization's governance practices and to enhance transparency, the IRS revised its Form 990 in 2008.¹⁰ The Form 990 is the information return that most nonprofit organizations, including health centers, must file annually. The Form 990 is important because it:

- ◆ Provides basic financial information;
- ◆ Discloses information about the organization's governance and management policies; and
- ◆ Is readily available to the public.

Many health centers, those with gross receipts over \$1 million or total assets over \$2.5 million, will have their first experience with completing the new Form 990 in calendar year 2009.¹¹ Smaller

health centers, those with gross receipts over \$500,000 and total assets over \$1.25 million, will not have to file the new form until the 2010 filing season.¹²

The revised Form 990 requires tax-exempt organizations to provide information addressing, among other things, certain practices that the IRS views as promoting good governance (although, in most cases, those practices are not legally required for income tax exemption). Governance-related topics addressed in the revised Form 990 include, but are not limited to, the following:

- ◆ Adoption of a board-approved mission statement;
- ◆ Documentation of board and committee actions;

- ◆ Implementation of a written whistleblower policy;
- ◆ Implementation of a document retention and destruction policy;¹³
- ◆ Implementation of a conflict of interest policy, and the disclosure of conflicts;¹⁴
- ◆ Processes for determining executive compensation;¹⁵
- ◆ Processes (if any) for board review of Form 990 before filing; and
- ◆ Disclosure of the Form 990.

The new topics under Form 990 require additional work from all persons involved, including health center staff and board members.

10 Additional information regarding the revised Form 990 is available in Governance Information Bulletin #18, *Corporate Responsibility and the New IRS Form 990: Meeting the Challenge as a Health Center Board Member*, which is available on-line at http://iweb.nachc.com/downloads/products/GOV_18_09.pdf.

11 Form 990 is due the 15th day of the fifth month after the end of an organization's tax year, which means that health centers reporting taxes on a calendar year basis must file Form 990 by May 15 of the following year.

12 Beginning in 2011 (for returns for the 2010 tax year), the thresholds for filing the new Form 990 will be set permanently at \$200,000 gross receipts and \$500,000 total assets (42 C.F.R. § 51c.304(b)).

13 Additional information regarding the document retention and destruction is available in Risk Management Information Bulletin #18, *Record Retention Requirements for Business, Financial, and Clinical Information -- Risk Management Series*, which is available on-line at http://www.nachc.com/client/documents/publications-resources/rm_18_07.pdf.

14 Additional information regarding conflicts of interest is available in Governance Information Bulletin #16, *Identifying, Disclosing, and Managing Board Members' Conflicts of Interests*, which is available on-line at http://iweb.nachc.com/downloads/products/GOV_16_08.pdf.

15 Additional information regarding executive compensation is available in Governance Information Bulletin #6, *Compensating Health Center Executives*, which is available on-line at http://www.nachc.com/client/documents/publications-resources/gov_6_03.pdf.

Action steps related to the revised Form 990

Although the board's review of IRS filings is not required by law, it is consistent with the board's general oversight authority, and is recommended given the new Form 990's emphasis on good governance practices.

Specific board member actions include:

- ◆ Review the health center's Form 990 financial information and narrative statement, with a particular focus on the governance topics, prior to submission to the IRS.
- ◆ Consider whether the health center's governance-related practices include the areas described in the Form 990 and whether the board should modify current policies or establish new ones.
- ◆ Consider how the center's practices will be perceived by grantors, donors, and regulators who utilize Form 990 information.

IRS Initiatives Related to Establishing Executive Compensation

The IRS is very concerned about excessive compensation practices of nonprofit organizations. Excessive compensation is viewed as an abuse of a non-profit's tax exempt status, and inconsistent with its charitable purpose.

Reasonable Compensation

Compensation of executives of nonprofit tax-exempt organizations (including most health centers) must be reasonable in order to comply with federal tax laws¹⁶ and, to the extent that compensation is charged to a federal grant award, with federal cost principles.¹⁷

The Internal Revenue Code provides a "rebuttable presumption" that compensation amounts paid by tax-exempt organizations to their executives are reasonable if the organization satisfies a 3-prong process:

1. **Decision-making by an independent governing body** – a majority of "disinterested" members of the board must approve the Executive Director's compensation package in advance of any payment. Board members with an actual or potential conflict of interest must recuse themselves from the compensation negotiations and approval process.
2. **Reliance on comparability data** – comparability data generally involves looking at compensation levels paid by similar organizations (based on factors such as size and geographic area) for similar positions with similar responsibilities and levels of experience and expertise. Salary is only one element of compensation; all benefits have to be considered when identifying reasonable compensation. It is important to note that the compensation practices of for-profit organizations can be used in salary comparability studies. Health centers are not required to obtain comparability data by themselves; rather, such data can be obtained through compensation surveys or studies conducted by outside compensation consultants and by other organizations (such as NACHC and State and Regional Primary Care Associations).¹⁸ Health centers may use existing compensation surveys, but must assure that the compensation data is current and comparable to a health center.

16 Section 4968 of the Internal Revenue Code.

17 The Office of Management and Budget Circular A-122, which sets forth the federal cost principles, generally defines "reasonable" as follows: "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs."

18 NACHC conducts a yearly compensation survey - *Executive and Clinician Compensation Report for Health Centers* – which can be obtained through the NACHC website at www.nachc.com under Publications & Resources.

3. Adequate documentation

– for a decision to be “adequately documented,” the records of the board must note:

- i. The terms of the compensation approved and the date that it was approved;
- ii. The members of the board who were present during the deliberation on the compensation package and those who voted on it;
- iii. The comparability data obtained and relied upon by the board and how it was obtained; and
- iv. Any action taken with respect to consideration of the compensation package by anyone who is a member of the board who had a conflict of interest with respect to the proposed compensation package.

The records supporting the decision must be prepared within 60 days after the final action of the board. The records must be reviewed and approved by the board as reasonable, accurate, and complete.

According to the Internal Revenue Code, a penalty tax may be imposed on an executive who engages in an “excess benefit transaction” that cannot be justified under the rebuttable presumption, as well as “organizational managers” (*e.g.*, board members) who knowingly

approve such transaction.¹⁹ An excess benefit transaction is one in which the value of the benefit provided to the disqualified person exceeds the value of the consideration received by the organization.

The Executive Compensation Compliance Initiative

In March 2007, the IRS issued a report detailing preliminary findings from its Executive Compensation Compliance Initiative. The Initiative began in 2004, when nearly 2,000 tax-exempt organizations, including health centers, received surveys from the IRS requesting information regarding their executives’ compensation.

The IRS’ examinations revealed that, although executive compensation amounts were high in several instances, generally those amounts were substantiated based on comparability data. Interestingly, only 51% of the surveyed organizations attempted to satisfy all 3 prongs of the rebuttable presumption, while only 54% obtained outside comparability data. However, of those organizations that obtained comparability data, a vast majority (97%) established compensation based on the data.

Where problems were found, significant excise taxes were assessed – 25 of the examinations resulted in excise taxes in excess

of \$21 million, including \$4 million assessed against public charities, including health care organizations. Assessments arose for several reasons, including:

- ◆ Excessive salary and incentive compensation;
- ◆ Unreported compensation in the form of payments to disqualified persons for vacation homes, personal legal fees, personal automobiles, as well as meals and gifts provided to others on behalf of disqualified persons; and
- ◆ Payments to an officer’s for-profit corporation in excess of the value of services provided.

Action steps related to establishing executive compensation:

Board members are explicitly responsible for establishing the Executive Director’s compensation, and therefore should satisfy the above rebuttable presumption procedure when determining the Executive Director’s compensation.²⁰ Board members are also required to establish salary and benefit scales for other health center personnel, including, but not limited to, other key management.²¹ Thus, it is advisable that board members use the same principles and processes described above for establishing wage and benefit scales.

¹⁹ IRC § 4958; 26 C.F.R. § 53.4958-T.

²⁰ See 42 C.F.R. § 51c.304(d)(3)(i).

²¹ See 42 C.F.R. § 51c.304(d)(3)(ii).

Specific board member actions include:

- ◆ Review what comparable organizations pay similarly qualified and experienced persons for comparable services.
- ◆ Take into consideration all compensation (e.g., fringe benefits, life insurance, auto insurance).
- ◆ Document the process used to establish appropriate compensation, specifically for the Executive Director, and to establish wage and benefit scales for other personnel in general.

Recent Developments in Corporate Responsibility-Related “Good Governance” Guidance Issued by the IRS

The IRS seeks to improve governance through educating board members on their roles and responsibilities and highlighting best practices. On February 4, 2008, the IRS issued a publication, *Governance and Related Topics - 501(c)(3) Organizations*, which sets forth voluntary good governance guidelines designed to ensure that board members of exempt organizations understand their roles and responsibilities, and actively promote good governance practices.²² The policies and practices described are only recommendations and are not

legally required for tax exemption. Although the IRS cannot enforce these good governance practices, the IRS takes the position that it can nevertheless use its oversight authority and regular reviews of tax exempt organizations and their filings to assess governance.

The publication states, “[W]hile the tax law generally does not mandate particular management structure, operational policies, or administrative practices, it is important that each charity be thoughtful about the governance practices that are most appropriate for that charity in assuring sound operations and compliance with tax law.”

The publication discusses several good governance recommendations similar to the topics addressed in the Form 990, as described in this Information Bulletin under the section entitled “Revisions to the IRS Form 990,” including the following:

- ◆ Adopting a clear mission statement, specifically adopted by the board (i.e., address why the charity exists, what it hopes to accomplish, and what activities it will undertake, where, and for whom);
- ◆ Establishing organizational documents that provide the framework for governance and management;

- ◆ Establishing a governing body comprised of independent persons who are active, engaged and informed, and selected with consideration to the organization’s needs;
- ◆ Implementing governance and management policies, including those related to executive compensation, conflicts of interest, investments, fundraising, documentation decision-making, document management, and whistleblower claims;
- ◆ Reviewing financial statements and Form 990 reporting; and
- ◆ Making full and accurate information about activities, finances, and mission publicly available to encourage transparency and accountability.

Action steps related to IRS good governance guidance:

Although compliance with the IRS recommendations is not required, board members should periodically evaluate the health center’s governance practices and policies per the IRS guidelines, and should consider adopting some or all of the suggested practices. Focus only on IRS’ recommendations that are relevant to the health center’s specific characteristics and circumstances.

22 *Governance and Related Topics - 501(c)(3) Organizations* is available on-line at <http://www.irs.gov/charities/index.html>.

Specific board member actions include:

- ◆ Consider how the health center's practices measure up to these IRS good governance recommendations, and whether the health center should modify current policies or establish new ones.
- ◆ Review the health center's bylaws and revise, if appropriate.
- ◆ Review the governing board's composition and confirm that it is compliant with Section 330 requirements and expectations, as well as consistent with IRS recommendations.
- ◆ Review the Executive Director's compensation and wage and benefit scales for all categories of personnel to assure reasonableness.
- ◆ Update the health center's conflict of interest policy, and confirm that board members disclose actual or potential conflicts.
- ◆ Confirm that the board is regularly briefed and engages with management regarding

the health center's financials, approves the budget, and reviews the Form 990 before filing with the IRS, and accepts the annual audit.

COMPLIANCE-RELATED GUIDANCE FROM THE OFFICE OF INSPECTOR GENERAL

The Office of the Inspector General (OIG) of the Department of Health and Human Services (HHS) believes that the role played by health care organizations' Boards of Directors is a key component of an effective compliance program.²³ During 2003 and 2004, the OIG issued two guidance resources related to the Boards of Directors' role in corporate responsibility, both of which are discussed in NACHC's October 2005 Governance Information Bulletin #10, *Translating Corporate "Responsibility" Legislation and Guidance into Good Governance*.²⁴

On September 13, 2007, the OIG issued a third compliance-related educational resource for Boards of Directors of health care organizations, *Corporate*

Responsibility and Health Care Quality: A Resource for Health Care Boards of Directors, intended to help board members establish, and affirmatively demonstrate, that they have followed a reasonable oversight process with respect to quality of care.²⁵ According to the OIG Resource, "health care organization boards have distinct responsibilities in this area because promoting quality of care and preserving patient safety are at the core of the health care industry and the reputation of each health care organization."

Similar to previous guidance, the OIG Resource sets forth a series of questions for the board to ask in the course of understanding and examining the scope and operation of its organization's quality and safety initiatives, measurement tools and reporting requirements. These include, among others:

- ◆ What are the goals of the organization's quality improvement program? How is progress measured and how are the goals linked to management accountability?
- ◆ How does the organization measure and improve quality of patient care?
- ◆ How are the organization's quality assessment and improvement processes integrated into overall corporate policies and operations? How are they coordinated with the organization's corporate compliance program?

23 See *Continuing a Partnership for Effective Compliance: A Summary of the Government-Industry Roundtable on the Role of Governance in Compliance Program*, Office of Inspector General, U.S. Department of Health and Human Services (June 16, 2004).

24 "Translating Corporate "Responsibility" Legislation and Guidance into Good Governance" is available on-line at http://www.nachc.com/client/documents/publications-resources/gov_10_05.pdf.

25 *Corporate Responsibility and Health Care Quality: A Resource for Health Care Boards of Directors* is available on-line at <http://oig.hhs.gov/fraud/docs/complianceguidance/CorporateResponsibilityFinal%209-4-07.pdf>.

- ◆ What processes are in place to promote the reporting of quality concerns and to protect those who ask questions and report problems?
- ◆ Does the board have a formal education process to assist members in appreciating external quality and patient safety requirements?
- ◆ What information is essential for the board to understand and evaluate quality assurance/improvement programs?
- ◆ Are resources adequate to support patient safety and clinical quality? Do the organization's competency assessment, credentialing and peer review processes adequately recognize these issues?
- ◆ How are adverse events and other medical errors identified, analyzed, reported and incorporated into the organization's performance improvement activities?

Action steps related to the OIG compliance-related educational resource:

Similar to the IRS good governance guidance, compliance with the recommendations in the OIG Resource is not required. However, the Health Center Program Expectations clearly state HRSA's expectation that the board will establish quality assurance/improvement policies.²⁶ Further, oversight of quality of care is becoming more clearly recognized as a fiduciary responsibility of health center board members.²⁷

Specific board member actions include:

- ◆ Collectively review the OIG Resource and the above questions.²⁸
- ◆ Establish a Quality Assurance Committee (either separate from or as part of the staff Quality Assurance Committee).

- ◆ In conjunction with management, review the health center's current quality assurance and improvement policies and identify any appropriate revisions.
- ◆ Assure that the board is updated regularly regarding Quality Assurance Committee reports and other quality improvement activities, including utilization reviews, patient satisfaction surveys, patterns of patient grievances, and health center productivity reviews.

BEST PRACTICE PROPOSALS RELATED TO CORPORATE RESPONSIBILITY SUGGESTED BY THE PRIVATE SECTOR

Good guidance “best practices” have also been highlighted by the private sector. Currently, the key private sector guidance is the October 2007 *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*, published by the Panel on the Nonprofit Sector.²⁹ The Guide provides a comprehensive set of principles of sound practice that should be considered by board members of charitable organizations. The purpose of the Guide is to reinforce a common understanding of transparency, accountability, and good governance for the nonprofit sector—not only to

26 Bureau of Primary Health Care (BPHC) Policy Information Notice: #98-23, “*Health Center Program Expectations*,” August 17, 1998.

27 Additional information on the boards' role in quality of care and quality assurance is available in Governance Information Bulletin #3, *The Role of the Health Center's Board of Directors in Establishing a Quality Assurance Program*” which is available on-line at http://iweb.nachc.com/Purchase/ProductDetail.aspx?Product_code=GOV_3_03.

28 The OIG resources are available on the OIG's website at www.oig.hhs.gov/fraud/complianceresources.asp.

29 *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations* is available on-line at <http://www.nonprofitpanel.org>.

ensure ethical and trustworthy behavior, but also to spotlight practices that contribute to effectiveness, durability, and broad popular support for charitable organizations of all kinds.

The Guide sets forth 33 concepts of “sound practices,” which are organized under four main categories:

1. ***Legal Compliance and Public Disclosure:*** Responsibilities and practices, such as implementing conflict of interest and whistleblower policies, that will assist charitable organizations in complying with their legal obligations and providing information to the public.
2. ***Effective Governance:*** Policies and procedures that the Board of Directors should consider implementing to fulfill its oversight and governance responsibilities.
3. ***Strong Financial Oversight:*** Policies and procedures that an organization should consider following to ensure wise stewardship of charitable resources.
4. ***Responsible Fundraising:*** Policies and procedures organizations that solicit funds from the public should consider following to build donor support and confidence.

Action steps related to private sector “good governance” guidance:

As with all voluntary guidance (whether issued by government agencies such as the IRS and the OIG, or by private sector organizations), compliance with the recommendations is not required. Nevertheless, board members are encouraged to carefully examine all good governance guidance, including the Principles for Good Governance and determine if, and how, these principles should be applied to the governance of the health center.

Specific board member actions include:

- ◆ Use the Guide to assist, establish, and review the health center’s:
 - Governance practices;
 - Corporate compliance program, policies and procedures;
 - Quality assurance and improvement plans;
 - Risk management plans;
 - Reporting systems;
 - Internal control systems;
 - Financial systems; and
 - Fundraising and advocacy practices.

CONCLUSION

A critical component of the corporate responsibility movement is board involvement in compliance-related activities. **Although many of the corporate responsibility guidance and policies discussed in this Information Bulletin are not currently required, board members are encouraged to diligently review and address the recommendations.** These responsibilities should not be viewed as daunting and new. Rather, board members should see corporate responsibility efforts as an opportunity to review (and, as necessary, revise) the health center’s governance practices, thus demonstrating to their management, staff and the overall community the board’s commitment to ethically govern the health center as a vital health care resource for the community.



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