Study Guide: Organizational Governance

Below is a brief outline for the course

Governance structures

Legal compliance - Regardless of the governance structure, the owners, managers and officers have significant fiduciary and legal responsibilities. This means you are obligated to ensure that the medical practice and its governance structure meets and uphold the regulations under which it operates.

- False Claims Act
- Federal Medicare-Medicaid Anti-Kickback Provision
- Health Care Fraud and Abuse
- Health Insurance Portability and Accountability Act of 1996 (HIPAA)
- Physician Self-Referral (Stark)

Sole Proprietorship - A sole proprietorship is a business that is owned by a single individual and is not registered with the state. Under this status, one goes into business for oneself. From a legal perspective, a sole proprietorship is inseparable from its owner. The owner of the business reports business income and losses on his or her personal tax return and is personally liable for any business-related obligations, such as debts or court judgments.

Partnerships - A partnership is a business owned by two or more people who have not filed papers to become a corporation or a limited liability company (LLC). Similar to the sole proprietorship, the business is not registered with the state. The partnership’s owners pay taxes on their shares of the business income on their personal tax returns and they are each personally liable for the entire amount of any business debts and claims.

Limited Liability Partnerships (LLPs) - Limited liability partnerships are complicated and expensive to establish. They are usually created by an individual or company defined as the “general partner,” who solicits investments from others who are “limited partners.” The general partner is responsible for the business’s daily operations and is liable for the debt (unless the general partner is a corporation or limited liability corporation). Limited partners have minimal control over daily business decisions or operations and are not personally liable for business debts or claims.

Corporations - Forming and operating a corporation is more complicated and expensive, but its biggest benefit is that it limits the owners’ personal liability for business debts or judgments against the business. The corporation is an independent legal and tax entity that is separate from the people who own or control it.

- Limited Liability Corporations - Limited liability corporations (LLCs) offer limited personal liability for business debts and claims. But when it comes to taxes, LLCs are more like partnerships; the owners of an LLC pay taxes on their shares of the business income on their personal tax returns.
- C Corporation - C corporation status determines how a corporation is taxed and the degree of personal liability. The partners may have in regard to any debts the corporation may incur. In addition to taxes a C corporation pays on profits, employees or partners of the corporation must also pay tax-on income they receive. The most often-cited disadvantage of using a C corporation is “double-taxation.” Double-taxation occurs when a C corporation has a profit left over at the end of the year and wants to distribute it to the shareholders as a dividend. The C Corporation has already paid taxes on that profit. However, once it distributes the profit to shareholders, the shareholders must declare the dividends they receive as income on their personal tax returns, and pay taxes again, at their own personal rates.
- S Corporation - In general, S corporations do not pay any income taxes. Instead, the corporation's income or losses are divided among and passed through to its shareholders. The shareholders
must then report the income or loss on their own individual income tax returns. S corporation provides many of the benefits of partnership taxation and at the same time gives the owners limited liability protection from creditors. S corporations are recognized as separate legal entities and generally provide shareholders with the same liability protection afforded by C corporations. For federal income tax purposes, however, taxation of S corporations resembles that of partnerships. The income, deductions, and tax credits of an S corporation flow through to shareholders annually, regardless of whether distributions are made. Thus, income is taxed at the shareholder level and not at the corporate level. In order to qualify to be recognized as an S corporation, the following requirements must be met:

- Must have only one class of stock.
- Must not have more than 100 shareholders.[1][2] [http://en.wikipedia.org/wiki/S_corporation#cite_note-NYSSCPA-1](http://en.wikipedia.org/wiki/S_corporation#cite_note-NYSSCPA-1)
- Shareholders must be U.S. citizens or residents, and must be physical entities (a person), so corporate shareholders and partnerships are to be excluded.
- Profits and losses must be allocated to shareholders in proportion to each one’s interest in the business.

- Nonprofit 501(c)(3) - Section 501(c)(3) is a tax law provision granting exemption from the federal income tax to nonprofit organizations. This exemption does not cover other federal taxes such as employment taxes. 501(c)(3) exemptions apply to corporations and any community chest, fund- or foundation, organized and operated exclusively for certain purposes. Another provision, 26 U.S.C. § 170 [http://en.wikipedia.org/wiki/Internal_Revenue_Code], provides a deduction, for federal income tax purposes, for some donors who make charitable contributions [http://en.wikipedia.org/wiki/Charitable_contribution] to most types of 501(c)(3) organizations. The corporation’s net income must not be used, in whole or in part, to the benefit of private shareholders or individuals.

Committee descriptions - Part of the governance structure is the committee structure. This is how you organize your governance.

Executive or operations - This committee focuses on daily operations. Responsibilities encompass staffing, equipment, policies and services provided in the clinical practice. This group provides direction with regard to planning, if there is not a separate planning committee, and ultimately makes recommendations to the board.

Payer contracting - The payer contracting committee provides direction to the individuals in the practice that have the responsibility for negotiating agreements with commercial health plans. They review proposals, evaluate market conditions, assess the needs of the group, and offer advice for establishing fees and rates.

Finance and budget - This committee provides oversight of the financial aspects of the practice, monitors monthly performance and makes recommendations in terms of expenses and revenues. The committee also reviews and approves the budget prior to its presentation going to the board.

Technology - This committee is charged with evaluating and reviewing new technologies such as medical equipment and devices or information technology needed to manage the practice.
Compensation - This committee provides direction and oversight of physician compensation; it evaluates existing plans and reviews new methodologies and models. The committee also makes recommendations as to how the practice income should be distributed.

Planning - The planning committee is charged with evaluating the needs of the practice with respect to the market and the business environment. This committee provides oversight of the short- and long-term needs of the practice, such as expanding a current location, developing a new location- or offering new services.

Quality - The quality committee that seeks to promote and improve the care provided by the practice. This group focuses on best practices, clinical pathways, Healthcare Effectiveness Data and Information Set (HEDIS) indicators and other outcomes.

Credentialing - This committee is responsible for assuring that new physicians and providers in the practice meet certain standards with regard to education and experience in the specialty in which they are trained. Through a peer review process the committee would also evaluate and re-credential colleagues already in the practice. Again these are not allinclusive and each medical group will have to determine what best meets its needs. In smaller practices, these committees would not typically exist. The various issues and topics affecting the group would be addressed by the officers at the board level.

Board composition (officers) – roles and responsibilities

The board composition, roles and rules are defined in the practice’s by-laws. As part of the board’s responsibilities, the by-laws are reviewed annually. The board must also provide for the organization’s future through succession planning. This entails identifying younger members of the practice, gaining their interest, and mentoring them for leadership roles.

Typically, medical groups include four officers in their governing bodies: president, vice president, secretary and treasurer.

- President- Ensures the integrity of the governance process, administers policies set by the board, chairs and establishes the agenda for board meetings, represents the practice to outside parties and works closely with administrative leadership to establish direction and implement board initiatives.
- Vice president- Responsible for supporting the president and the medical practice’s initiatives as well as filling in for the president during any absences.
- Secretary- Keeps the corporate records, such as meeting minutes, bylaws, articles of incorporation, and other documents that pertain to the governance of the practice.
- Treasurer- Financial sustainability by overseeing the preparation of budgets, managing the accounting process and, for larger groups, working with auditors to assure that financial processes are consistent with generally accepted accounting principles (GAAP) and that management handles finances with integrity.
- Training and orientation of the board.

Organizational documents - The following list offers descriptions of basic documents that are found in medical groups:

- Articles of incorporation – These define the legal structure of the organization, its purposes and what will happen to its assets upon dissolution.
- Bylaws – These describe more specifically the leadership structure (including officers) of the organization, their roles and terms of office, membership on the board of directors, frequency of meetings and other procedures for orderly governance.
- Meeting minutes – The entity records and maintains board meeting minutes.

Culture and communication - The board has an obligation to establish a direction, philosophy and a culture for the group. This includes the creation of a mission statement, vision statement and values statement for the organization. Another key duty for which the board is responsible for is the strategic plan.
The board has the responsibility of establishing a strategic plan and authorizing management to implement it.

- The foundation for the plan are the mission, vision and values of the organization. The strategic plan should set a course to meet the needs of the organization and the market that it serves.
- The board will conduct a SWOT analysis that will define the organization’s strengths, weaknesses, opportunities, and threats.

The physician also plays a critical role with the leadership team in a practice. Communication between physicians and administration plays a critical role in the leadership of the organization. Forums for communications should encompass:

- Regularly scheduled meetings with established agendas
- Published meeting minutes
- Email messages and memos
- Regularly published newsletters
- Development of a portal/intranet site that provides content regarding the medical group

Objectives (Self check):

- ✓ Examine the current governance structure
- ✓ Compare committee structures of large and small organizations
- ✓ Explain how orientation and training of board members works
- ✓ Describe board composition
- ✓ Explain how the board affect the mission of the practice
- ✓ Explain the elements of the SWOT analysis
- ✓ Describe the importance of the physician leader