A Unique Approach to Assessing Board Committee Effectiveness

by Mary K. Totten

As a focus on continuous improvement has permeated work culture in many industries, performance assessment strategies and tools are becoming integrated into routine organizational and leadership practices. Leading health care governing boards are embracing this trend by participating in more frequent and formal evaluation of board performance. Once an annual or biannual assessment of how well the full board carries out its roles and responsibilities, board evaluation today takes many forms, including individual director and board leader assessment and evaluation of board and committee meetings. These assessments are typically conducted by either the board itself or with the support of outside resources.

In 2013, Kaiser Foundation Health Plan, Inc. / Kaiser Foundation Hospitals will complete a multi-year audit of the effectiveness and accountability of its board’s six key committees using a unique approach—having the assessment conducted by Kaiser’s Internal Audit Services function.

The Process

While Kaiser’s first board committee audit was conducted in 2008, preparing for it began three years earlier when Internal Audit Services was getting ready for its first external quality-assessment review. Using definitions and standards developed by the Institute of Internal Auditors (IIA) to conduct a rigorous self-assessment of its own practices they reflected on the extent to which they brought a systematic and disciplined approach to evaluating and improving governance processes and overall effectiveness. While Internal Audit Services had been involved in some aspects of governance work, such as assessing the organization’s anti-fraud program, reviewing board-related expenses and making recommendations to enhance risk management and internal controls, they had taken less of a role in directly “evaluating governance processes,” as suggested by IIA standards.

Kaiser’s internal auditors began researching how other organizations were using the internal audit function to improve governance effectiveness and soon entered uncharted territory. Resources from the National Association of Corporate Directors and IIA helped Kaiser’s internal auditors confirm that they were already performing many of the typical governance-related activities that internal auditing groups conduct. Desiring to move beyond the status quo, Cindy Overmyer, senior vice president (then vice president) of Internal Audit Services, and Neal Purcell, then chair of the board’s audit and compliance committee, determined that performing an audit of a board committee might be an emerging best practice. If successful, an initial audit could then serve as a pilot for other committee audits as well.

Overmyer gained support from Kaiser Chairman and CEO George Halvorson and the board’s governance, accountability and nominating committee, which oversees the effectiveness of board committees. The governance committee volunteered to be the first committee audited. The only requirements the board and management established were that the audit be performed with objectivity and independence, incorporate best practices and deliver candid findings.

The 2008 audit of the governance committee examined its activities and evaluated its charter and the company’s corporate governance guidelines against best practices in areas such as director qualifications, the corporate code of ethics, annual board performance evaluations and the role of the board convener. Because Kaiser’s CEO also serves as board chairman, an independent board convener approves board meeting agendas and schedules, presides at all meetings of non-management directors and at executive sessions, is the liaison to the board’s independent directors and generally balances the board and CEO functions. Auditors identified best practices using resources such as Sarbanes-Oxley requirements, governance policies of other large organizations and the Conference Board’s report of the Commission on Public Trust and Private Enterprise.

In reviewing committee responsibilities and authority as stated in its charter, the audit considered:

- corporate governance guidelines;
- committee member qualifications;

continued on page 2
• overall committee composition;
• conflict-of-interest practices;
• directors’ and officers’ liability insurance coverage;
• committee review of corporate documents, strategic plan performance and the board self-evaluation process;
• documentation of committee proceedings and decisions; and
• the committee’s communications with management.

The audit was conducted by a senior Internal Audit Services manager who observed committee meetings to assess areas such as the dynamics of interaction between committee members and senior management and whether enough time was devoted to agenda items. The auditor also interviewed the committee chair, board chair and assistant secretary of the board.

The audit team’s final report included a “meets expectations” opinion—the highest rating given by Internal Audit Services—and contained no audit findings or recommendations. This positive experience and outcome paved the way for audits of the remaining five key board committees, which were conducted from 2009-2013.

According to Overmyer, the remaining audits identified very few issues, mainly the need to update some committee charters to ensure they are consistent with committee activities and to standardize reporting formats so that the information for committee members is easier to use.

“The biggest benefit of the audit process has been the additional comfort and confidence board members now have that they are accomplishing their chartered committee responsibilities and meeting their fiduciary requirements,” she says.

Suggestions for Boards

For other boards interested in an internal audit of their committees’ effectiveness, Overmyer offers these observations:

• Consider the maturity of the internal audit function and the board. Historically, the image of the hospital internal audit function was sometimes associated with billing and coding activities and might be perceived to play a narrow role. Internal audit has broadened its scope to focus on other business and compliance risks as well as risks associated with various forms of strategic engagement. This broader role has raised the perception of the internal audit function’s credibility and capability in working with an organization’s management and board. In order for internal auditors to effectively conduct a governance-focused audit they also need to be mission-focused; able to assess group dynamics; and capable of handling complex, sometimes ambiguous subjects. For boards to benefit from an audit they need to be open to ideas for improvement, focused on best practices, and able to view audit findings as learning opportunities.

• “Socialize” the audit idea. Before deciding to conduct an audit, it is important that key stakeholders, including management and the board, support it. Overmyer had initial conversations with Kaiser’s CEO, general counsel, CFO and the board’s governance and audit committee chairs to explain the audit concept, address their questions and concerns and gain their support. Issues they explored included:

  ◊ What will internal audit do with the findings?
  ◊ If the audit identifies a fiduciary concern, are the board and general counsel prepared to address it appropriately?
  ◊ Are the board and management comfortable with the auditor? Because confidential and proprietary information is likely to be shared during an audit, there should be confidence in internal audit’s treatment of the information. While the internal audit function typically handles confidential information, this is an appropriate discussion to have. Also, because many committee topics are highly sensitive and complex, Internal Audit Services appointed a senior-level audit manager with the ability to understand committee discussions and to apply the appropriate level of judgment to interpret them.

continued on page 3
Seek out best practices. Even though best practices for committee audits may be hard to find, it is important that the audit go beyond compliance with the committee’s charter and review of other committee documents and consider how its activities reflect good governance practices for the type of organization or committee. Reviewing best practices also can be helpful in determining what steps committees can take to improve their performance.

Build in opportunities for self-correction. Consider conducting a “pre-audit” conversation for committees to let them know the types of issues that will be looked at during the audit, such as how the committee is functioning overall, how its meeting agendas are developed, whether it is following its charter and whether there is an appropriate level of dialogue during meetings. A pre-audit discussion can surface issues that committees can examine and address before the audit occurs. Using a structured annual agenda that covers all committee duties, ensuring that committee members receive meeting materials enough in advance to review and consider them; and maintaining a culture of open, candid dialogue between the board and management are additional steps board committees can take to be prepared for an audit. At Kaiser, one board committee had some ongoing time management challenges with its agenda. During the pre-audit conversation, the internal auditors mentioned that this was one thing they would be looking at during the audit. The committee corrected this issue in advance of the audit and continues to conduct its meetings more smoothly and effectively.

Determine how committee audits will be sequenced. Kaiser focused on the governance committee first because of its responsibility for overall committee effectiveness and the need to gain its support for continuing the audit process. “This committee also was a good choice for us,” Overmyer says, “because it was a stable and well-developed committee with a straightforward charter and responsibilities.”

Communicate often. Make sure there is ongoing communication with the committee chair throughout the audit to ensure “no surprises” when the audit findings are delivered. Also conduct periodic check-ins with the corporate secretary or executive who supports the board and with key management staff who support the committee. These conversations can surface potential issues that can then be addressed before the audit concludes.

Determine how findings will be delivered. At Kaiser, there is communication throughout the audit, and once it concludes, the committee and management who staff it receive the final results first. They learn about the issues the audit uncovered, recommendations to address them and the audit opinion. Auditors also discuss the committee’s strengths and give the committee chair the opportunity to comment on the audit process and findings. A formal report is then issued and is sent to the board chair, the committee and other key stakeholders. An audit report is also given to the board and the governance and audit committees.

As Kaiser’s board and management discovered, a rigorous, standards-based audit process that employs recognized best practices and that is conducted in an objective, independent, transparent and accountable manner pays multiple dividends. It assures board members that they are fulfilling their governance and fiduciary responsibilities in a compliant and accountable way and positions the internal audit function as a credible and useful resource for supporting and enhancing governance effectiveness.

Note: This article expands on a description of Kaiser’s board committee internal audit process included in “Governance in Large Nonprofit Health Systems: Current Profile and Emerging Patterns” published in 2012 by the Commonwealth Center for Governance Studies, Lexington, Kentucky.

Mary K. Totten can be reached at marykaytotten@gmail.com.
Most Commonly Asked Questions About Board Committees

by Barry S. Bader and Pamela R. Knecht

Committees are the engines that power the board’s oversight, planning and decision making functions. By focusing on one area such as finance, quality or corporate compliance, committees enable the board to fulfill its fiduciary duties over the full range of governance responsibilities more efficiently and effectively than the full board could. Effective committees can significantly improve the board’s overall effectiveness by allowing the full board to expeditiously review and approve committee work, opening up more time at full board meetings for substantive discussion on large and future-oriented issues. The increasing size and complexity of hospitals and health systems, coupled with emerging strategic challenges, makes effective committee work more essential than ever.

Here are some of the questions that we as governance consultants hear most frequently about board committees.

**Q: Which committees should our board have?**

**A:** Boards create committees for one reason: to help the full board do its work by performing one or more of these tasks:

- In-depth oversight ...
  - of organizational performance versus goals in such areas as finance, quality of care and strategic plan implementation
  - of management recommendations regarding major new programs and transactions
  - of ethical and compliance matters
  - of decisions requiring board action, such as physician credentialing
- Early-stage inquiry, education, and discussion of trends, plans and decisions, to frame the issues and options that ultimately will come to the full board
- Sounding board for management to draw on the committee’s expertise and judgment on matters that don’t require formal board action.

To perform these tasks, the most commonly created board committees are, according to the most recent survey by the American Hospital Association’s Center for Healthcare Governance:

- Finance (83%)
- Quality (75%)
- Executive (68%)
- Governance and nominating (60%)
- Audit and compliance (51%)
- Strategic planning (44%)
- Executive compensation (36%)
- Physician relations (35%)
- Fund-raising/Development (18%)
- Community benefit/Mission (14%)
- Government relations (4%)

**Q: What should go into a committee charter, and how often should the board review and update it?**

**A:** The charter should describe the committee’s overall purpose, authority, specific responsibilities, the reports it reviews and their frequency, the meeting schedule, size, composition (including expectations regarding independence), terms, term limits (if any) and required/desired competencies. It is also helpful to include a description of the committee’s leadership (e.g., Chair and Vice Chair) and to identify who will be staff to the committee (e.g., CFO for the Finance Committee). An annual update is advisable to accommodate emerging issues and changes to the committee membership and calendar.

Like the full board, committees should also have a few annual goals, and an annual work and education plan.

**Q: How large should committees be?**

**A:** The ideal working size for a committee is the smallest range that balances the need for subject matter competence and effective group interaction. Most committees, especially audit, corporate compliance and executive compensation, work well with five to seven members. Committees with broader responsibilities, such as strategic planning, finance, community benefit and possibly quality, may benefit by inclusion of more stakeholders and be a bit larger. However, as committees grow to double digits, size may compromise their ability to work efficiently and coalesce into a focused team.

**Q: Should non-board members serve on committees? Should they vote?**

**A:** Adding non-board members can be a beneficial practice for several reasons: adding expertise not present on the board, engaging potential future board members, broadening stakeholder input and board diversity, and helping small boards populate committees with a critical mass for a working group.

The bylaws and committee charter should clarify whether non-board members may vote. Generally, if a committee is making recommendations to the full board, then all committee members may vote; if the committee is empowered by the board to take final action, however, then usually, only full board members vote. Check with your counsel.

continued on page 5
Q: Should committees make final decisions on the board’s behalf?

A: All committee authority comes from the full board. Committees assist the board by bringing reports and recommendations for board action. The only final decisions a committee may make are those for which the full board has granted authority and decision-making guidelines in the bylaws or in a formal policy. As health systems grow larger, more boards are delegating certain decisions to committees. For example, in some systems, finance committees may approve final transactions and capital spending up to certain dollar thresholds, and governance committees may approve appointments to subsidiary boards. A quality committee may approve physician credentials with “clean” applications. If any committees are given final authority, they should be careful to keep the full board informed of their actions and to avoid becoming a “board within a board.”

Q: Our board meetings have a consent agenda – should our committees still make individual reports or just be included in the consent agenda?

A: Routine committee reports and actions needing board ratification can generally be included in the consent agenda, with committee minutes providing clear background documentation. A committee should make a formal report in certain circumstances, such as recommending a major transaction, decision or board policy, and taking corrective action in response to a significant variance from goals. In other words, the committee should make a verbal report in the board meeting when there is a specific “ask” for action; not for a status report on the committee’s work. In addition, each committee should report at least annually on its oversight activities and engage the board in discussion. If a committee is overseeing a developing matter, such as a pending acquisition or compliance investigation, then an update in addition to the consent agenda may be appropriate. Use common sense to guide what the board should know.

Q: Who should make the committee’s report to the full board?

A: When a committee report is made, the committee chair should report, to build the board’s confidence in the committee’s (rather than staff’s) understanding and oversight of the issues at hand. A committee’s chief staff person certainly should be ready to supplement the chair’s reports, answer questions, and make presentations, but it’s the chair who carries the torch of fiduciary duty.

Q: What information should committees have?

A: Committees generally need several kinds of information tailored to their responsibilities, including:

- Quantitative reports, in dashboard-like formats, comparing actual performance with goals and highlighting significant variances and “red flags”
- Summary reports for lengthy narrative reports that highlight significant issues and concerns for board information or action
- Background reading on current and emerging trends and legislation or regulations

Q: How often should committees meet?

A: The frequency of the committee meetings should correlate with the board meeting frequency and the committee’s responsibilities. For instance, if the board is meeting 10-12 times a year, it is common for the finance committee to meet monthly. However, the audit and compliance committee may only need to meet twice a year. If a board is meeting quarterly (like many systems), it is especially important to carefully think through how often and when the committees need to meet. In any event, an annual meeting calendar should be created that ensures that each committee meets prior to the board meeting with sufficient time to provide minutes and reports in the board packet.

Q: Should committee performance be assessed?

A: Absolutely, yes. The full board’s self-assessment should include questions about committee effectiveness, and each committee should assess its charter, goals, makeup, reports, policies and practices every one to two years. For practical guidelines on a committee assessment process, see Great Boards, Summer 2008. For more information on conducting committee assessments, contact the AHA Center for Healthcare Governance at info@americangovernance.com.
Q: Our health system includes a number of subsidiary boards – should they have committees that duplicate the functions of system board committees, especially for finance and quality?

A: The answer really depends on the size of the system and degree of autonomy and fiduciary responsibility the system board has delegated to subsidiary boards. In multiple hospital systems serving a tight knit geographic market with highly integrated budgeting and patient care delivery, it is more likely that there will be one committee structure at the system level, versus having separate committees at the parent and operating unit entity level. In this scenario, the system board committees support system-wide integration and optimization. In larger systems that have regional subsidiary boards, committees of subsidiary boards make greater sense.

The question requires careful thought and intentional selection of a committee structure that adds value. Local committees should not be allowed to subvert system-wide strategic alignment and integration, but at the same time, systems should be cautious in abolishing committees that add needed advocacy of community and stakeholder perspectives and expert oversight to local management. It is important to ensure that the committee structure reflects the authority of the subsidiary board. For instance, if the system board retains authority for finance, it may not make sense for the subsidiary board to have a finance committee. If, however, one of the subsidiary board’s primary responsibilities is quality and safety, it might choose to have a committee to assist it with that work.

Q: As health systems become more transparent, integrated and accountable, how should committee work change?

A: That will vary among health systems, but a few changes to common committees include these:

- Mission and strategy: Are there programs, services and facilities we’ve provided in the past that should be discontinued or provided with a strategic partner?
- Finance: How will new payment systems such as bundled payments and quality incentives affect our financial performance? How ready are we for the changes ahead?
- Quality: How ready are we to be accountable for the integrated costs, clinical outcomes and safety of the care we provide with physicians and others along the continuum of care?
- Governance: Have we considered new competencies our board may need such as population health improvement and enterprise risk management?
- Executive and physician compensation: As our health system employs more and more physicians, is our physician compensation philosophy and plan in full compliance with federal requirements?
- Community benefit: Do we understand how to identify and address health disparities in our community that compromise our ability to pursue our mission?

Have more questions? Barry Bader and Pamela Knecht will lead an interactive session on committee effectiveness at the Center for Healthcare Governance’s Fall Symposium October 6-8 in Chicago.

Barry S. Bader is president of Bader & Associates, Scottsdale, Ariz., and is the founder of Great Boards. Pamela R. Knecht is president and chief executive officer of ACCORD Limited in Chicago and is a consultant on governance and strategic planning.

"The increasing size and complexity of hospitals and health systems, coupled with emerging strategic challenges, makes effective committee work more essential than ever."