C. Financial Systems and Risk Management

Finding the money and other resources for an HCH project is only one aspect of financial management. Once you have the funding, you need to have a system in place to assure accountability – to the funder, to the government and to the community – and to support internal management decisions. You also need the ability to manage and protect the organization's assets. The same accounting and risk management principles, standards and requirements apply to HCH as to any other nonprofit organization. But a few characteristics of HCH projects may make the accounting somewhat more complicated. Due to the technical nature of setting up and managing any accounting system, this chapter will refer the reader to other resources (see end of chapter and Appendix C), while pointing out some HCH-specific issues to keep in mind, both in relation to financial systems and risk management.

Five areas will be discussed:

• What are some of the accounting issues all HCH projects should consider?

• What are some of the potential issues for HCH projects that are part of larger organizations?

• What risk management issues need attention in HCH projects?

• Who should manage the HCH financial system and risk management?

• What additional resources are available regarding finances and risk management?

WHAT ARE SOME OF THE ACCOUNTING ISSUES ALL HCH PROJECTS SHOULD CONSIDER?

Some of the special characteristics of HCH projects that may complicate the accounting system (or at least require special attention) include:

- **Multiple funding sources** – HCH projects may easily have 15 to 20 different funding sources. Each one will have its own grant year, reimbursement process and reporting requirements. This calls for an accounting system specifically designed to accommodate this kind of complexity.

- **Minimal patient billing** – HCH projects are not primarily supported by direct patient revenue, which means the accounting system is not driven by patient billing as might be the case in other health care organizations. The most common billing that is done is either Medicaid reimbursement (which will vary depending on involvement in managed care) or billing funders for contract or grant payments.

- **Multiple contracts for services** – HCH projects frequently contract for services from other organizations, with some projects managing as many as 10 to 20 different contracts. Close monitoring of these contracts is crucial to maintaining accountability and should not be taken lightly.

- **Tracking in-kind donations and services** – HCH projects maximize their resources through extensive use of in-kind donations and services. These items and services need to be tracked so that their value can be included in reporting the true cost of operating the project. (Documentation and sharing of this information can also be used to promote awareness of community involvement in the project.)

- **Need for timely, accurate and "user-friendly" reports** – Any accounting system should provide timely and accurate reports. However, given the complexity of some of the HCH financial reports (with multiple funding sources, etc.) and the involvement of board members, advisory committee members or staff who may not be familiar with basic accounting principles, reports should be easy to read and useful for decision-making. Special efforts should be made to educate board or advisory committee members about how to read and understand the HCH financial reports, including the annual audit. Timely and accurate reports are especially important for managers with pro-

grams or specific staff funded by grants or contracts that do not coincide with the organization's fiscal year. This means their funding may end "mid-year" and they need to be aware of over-spending or under-spending, as well as communicating with administrative or financial staff regarding arrangements for continuation funding.

- **Computerized accounting system** – Given the complexity of HCH finances already discussed, it is obvious that the accounting system must be computerized. Projects should seek expert advice before choosing and installing an accounting system, since some that are generally good for small nonprofit organizations may not be adequate for HCH needs, and some that are designed for larger institutions may be too cumbersome.

- **Accounting policies and procedures** – In order to maintain consistency in procedures, compliance with regulations and clear communication with present and future staff, all accounting policies and procedures should be well documented. Depending on the size and nature of your HCH project, it may be possible to use another organization's accounting manual as a place to start, revising it to fit your project's circumstances.

WHAT ARE SOME OF THE POTENTIAL ISSUES FOR HCH PROJECTS THAT ARE PART OF LARGER ORGANIZATIONS?

Even in HCH projects sponsored by other organizations that have the benefit of an accounting system already in place, it is essential that the person responsible for administering the HCH project be familiar with the system. Accountability will only be realized if that coordinator monitors what information goes into the larger organization's system regarding HCH and what comes back out. Especially when larger systems may not be set up to accommodate some of the HCH documentation needs, the coordinator will need to negotiate with that larger system for changes, or begin considering an independent system for the HCH component.

A few key items to monitor as part of a larger organization include:

- Assuring that HCH funds are kept separate from parent organization operating funds and are used only for HCH-related activities.

- Assuring that payroll records are correct for HCH positions, and that payroll taxes are being paid appropriately.

- Assuring that reports from the larger system provide the necessary detail on financial status to report to the board of directors and/or advisory committee, as well as for management staff to monitor their budgets and make budgetary decisions.

- Assuring that the parent organization is paying bills and requesting reimbursements on behalf of HCH in a timely fashion.

- Assuring that the organization's annual audit includes HCH as a distinct entity that includes sufficient scrutiny of HCH records to document accountability.

- Assuring that the organization's accounting policies and procedures are consistent with regulations governing HCH funding.

WHAT RISK MANAGEMENT ISSUES NEED ATTENTION IN HCH PROJECTS?

(The information presented here should not be used in place of appropriate expert advice regarding these issues. Consult with your legal counsel to assure appropriate action.)

According to the Nonprofit Risk Management Center:

> *Effective risk management identifies threats, controls loss (preventing loss and reducing the severity should a loss occur), safeguards against unauthorized use of funds, protects against injury, and takes appropriate action to ensure legal compliance. Because no amount of prudence can eliminate every possible danger, it also offers tools for financing loss.*[1]

Although risk management involves much more, this section will only touch on the issues of licensing and insurance in relation to HCH projects. For more information, please refer to Appendix C.

Licensing

Most licensing regulations are state or locally determined. For this reason, the only definitive advice on this subject is that it is absolutely essential that licensing requirements be thoroughly investigated regarding: all clinical and professional positions; medical or dental facilities; pharmacies; labs; respite centers; substance abuse residential programs; group homes; day shelters; drop-in centers; overnight shelters; meal programs; transitional housing; or any other program that your HCH project plans

to enter into that could conceivably require a special license. Be aware of licensing requirements, which are usually from the state level, as well as zoning requirements, which are usually from the municipal or county level. For example, a substance abuse residential program might be able to secure a license to operate from the state, but not have the appropriate zoning designation from the municipality or county.

Projects sponsored by larger parent organizations that already have clinic licensure may find that their sites are automatically covered. Projects that contract with other organizations for services should assure through the contract that those organizations have all of their licensing requirements in order.

Insurance

The issue of insurance is briefly covered in the chapter on "Staffing Issues" in relation to malpractice or professional liability insurance for clinical staff. As mentioned in that chapter, your project should look into eligibility for coverage through the Federal Tort Claims Act (FTCA) to assist with malpractice insurance (see Appendix E).

An issue related to professional liability insurance that many HCH projects encounter is how to assure that volunteer providers are covered. Some projects may require that any volunteers providing direct services have their own coverage. Others may find ways to cover them under their organization's blanket policy or policy of their parent organization. Others may be able to collaborate with a larger health organization, such as a hospital, to have volunteers signed up through their volunteer department and covered appropriately. However it's done, make sure it is done.

Any project-owned automobiles, facilities and their contents should be appropriately insured. Other insurance needed is described as follows in a document from the National Association of Community Health Centers, "So You Want to Start a Community Health Center…?"[2] with the admonition "do not open your doors without it."

> "*Corporate Liability Insurance* covers the health center corporation and its employees for acts or omissions not arising out of the provision of professional services. A commonly cited example of situations covered by this kind of insurance is that of a person slipping on ice on health center property, breaking a hip and then suing the health center for not clearing the ice ahead of time. Generally, it is a good idea to carry

an amount of corporate liability insurance that will cover the assets of the corporation."

"Directors and Officers Liability Insurance is insurance for the health center's Board of Directors. A health center's board is responsible for acting prudently in the fulfillment of its fiduciary responsibility, for developing complete and appropriate policies for governing the health center, and for ensuring that these policies are heeded in the conduct of the health center's business. In rare cases, the personal assets of people who volunteer as health center board members can be at risk in case of a lawsuit. Directors and Officers Liability Insurance provides coverage for the board, both corporately and individually, in case a lawsuit is brought against the health center's board for acts or omissions that are in conflict with the board's fiduciary responsibility. As with corporate liability insurance, it is generally a good idea to carry enough insurance to cover the amount of assets held by the board."

WHO SHOULD MANAGE THE HCH FINANCIAL SYSTEM AND RISK MANAGEMENT?

If the HCH project is part of a larger organization, finances and risk management will usually be handled through that organization's corresponding departments. In those cases, the HCH coordinator or administrator should be totally familiar with those systems to be able to monitor all of the areas listed above.

HCH projects that are not part of larger organizations or that are expected or allowed to set up their own system within a larger organization will want to employ adequately-trained, experienced financial staff with an understanding of nonprofit fund accounting; experience in Medicaid or managed care is a plus. Sufficient personnel should be available to assure the project's ability to maintain compliance with funding regulations, timely reporting, billing for contracts, grants and reimbursements, and payment of bills. Insufficient training or inadequate number of staff for the workload, while seeming to save money, will cost you in the long-run. In some organizations these same staff members will be responsible for risk management issues, in conjunction with the executive director and possibly a board Finance Committee.

It cannot be emphasized enough how important it is that those who manage the financial system be able to clearly communicate financial information to management staff and board/advisory committee members, so

that they may make timely decisions regarding budgeting based on accurate information.

WHAT ADDITIONAL RESOURCES ARE AVAILABLE REGARDING FINANCES AND RISK MANAGEMENT?

Given the impact of financial and risk management systems on organizational health, appropriate resources and training should always be made available to staff responsible for these areas. Resources for nonprofits are available from numerous organizations, including those listed in Appendices C, D and E.

NOTES

1   The Nonprofit Risk Management Center website, www.nonprofitrisk.org. 1997.

2   J. Bright and T. Trompeter. So You Want to Start a Community Health Center…? Washington, DC: NACHC, 1996, p. 52.