



**Strengthening Oklahoma's Safety Net,
One Community At A Time**

Board Bulletin

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Conflicts of Interest: Part 2 of 3

CHC boards must address situations before they occur by creating strong conflict-of-interest policy - protecting the integrity of the health center *and* the individual board members. Boards can select from varying groups to determine the best one to establish and monitor compliance of conflict-of-interest policy: appoint a special committee for this task only, have a standing governance committee fulfill the duties, or engage an independent audit committee to do the work. No matter what process is used for developing and implementing conflict-of-interest policies, the board is ultimately responsible for policy approval and compliance. Boards are strongly advised to have legal counsel review the policy before giving approval. By having a solid conflict-of-interest policy, boards can keep focused on fulfilling the mission and vision of the organization.

Proactive Policy Protects

Conflict-of-interest policy should include the following components:

◆ **Statement of Purpose and Duties of Officers and Directors** - Give a brief description of the duties of loyalty and care each board member owes to the health center. Include those employees who are in a position to exercise substantial influence regarding health center decisions (e.g., CEO, COO, CFO). Because the IRS can impose tax sanctions when an excess benefit occurs, it is in the best interest of each board member to understand conflict-of-interest policy and ensure compliance with its disclosure requirements.

◆ **Direct or Indirect Financial and Other Material Interest** - In all business dealings reviewed by the board, it must be demonstrated that no board member receives personal benefit from the transaction and that there is no other option available that would be more advantageous for the health center. This requires full disclosure of any potential conflict-of-interest in the following areas:

A direct substantial financial interest - A board member having an interest in another entity doing business with the health center by having 1) a level of ownership in the entity, 2) an ownership of investment interest in the entity, or 3) having a compensation arrangement with the entity. Policy should set forth a percentage of ownership that defines 'substantial' interest.

An indirect substantial financial interest - Harder to recognize, it is aimed at identifying interests that indirectly benefit a board member. If a board member routinely provides professional services to a company being considered for a contract with the health center, the objectivity of that board member could be marred because of the benefit he or she might realize if the company is awarded the contract. Policy should require disclosure of all interests - direct or indirect.

Position as trustee, director, officer, member or employee of any organization doing business with the health center - Individuals who sit on multiple boards must disclose conflicting interests and recuse (disqualify) themselves from discussions involving the health center and the other organization to which they have an allegiance. The conflict occurs when board member objectivity is impaired resulting in decisions that are not best for the health center. For example, a CHC board member, also a board member of a long-standing community organization in financial trouble, may push for a merger with the health center as a means to save the failing organization - even though the health center would not realize gain and may experience harm by the merger of the two organizations. Policy must protect the health center against conflicts of this nature.

◆ **Co-Investment Interest** - Applies to board members who personally (or their family members) gain from how the health center funds are invested - directly or indirectly. If the health center is investing funds with a management service, board members and senior staff covered by the policy must disclose whether he or she, or a relative (as defined in policy) has personal investments with the company under consideration.

For more on this subject, read *Managing Conflicts of Interest* (BoardSource, www.boardsource.org).

To review OPCA's entire *Board Bulletin* series, visit the 'CHC Boards' section of www.okpca.org.

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