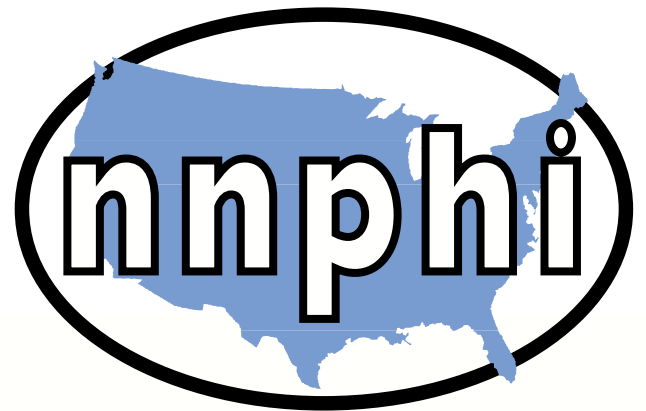


A Guide for DEVELOPING PUBLIC HEALTH INSTITUTES



May, 2005

Dear Colleague:

On behalf of the members of the National Network of Public Health Institutes (NNPHI), we are delighted to share NNPHI's *Guide for Developing Public Health Institutes* (the guide). The guide reflects the collective wisdom of NNPHI and member organization staff about how emerging public health institutes might benefit from the lessons learned by established public health institutes. We recognize that one important question is not addressed specifically in this publication: *What is the rationale for forming a public health institute?* Some key themes from a recent NNPHI audio teleconference on that very topic include:

1. *Public Health Institutes may complement state and local public health agencies in a number of ways, including:*
 - a. Adding capacity to respond rapidly to pressing public health problems.
 - b. Reaching out more broadly to partners in the public health system (e.g., engaging community groups).
 - c. Locating and utilizing specialized capacity.
 - d. Developing regional approaches to public health problems.
 - e. Serving as fiscal agents for programs or projects, some of which may combine government and foundation resources.

2. *Public Health Institutes may serve many additional purposes within the public health system, including:*
 - a. Serving as "neutral conveners" (a challenging but critical role).
 - b. Establishing new partnerships with community-based organizations, universities, and government jurisdictions (local or county).
 - c. Assisting in bringing in federal, foundation, and private dollars to states by providing grant-writing skills, expertise, and experience to various groups that may not have these skills.
 - d. Providing data and information to policy makers and advocates.

As more and more funding opportunities require partnerships and collaborations, public health institutes may serve a unique role in the public health system. If you are pursuing the development of a public health institute, we hope that this guide is helpful to you. Please contact NNPHI staff should you have any comments or questions. Your input will be valuable for future editions.

Best regards,

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Chair, NNPHI, and
Executive Director
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Introduction

Public Health Institutes (PHIs) are nonprofit, multi-sector entities that work in partnership and collaboration with federal, state, and local public health agencies, universities, foundations, and other health-related organizations to foster innovations that improve health.

The National Network of Public Health Institutes (NNPHI) was formed in 2001 to recognize and enhance the work being done in public health by independent, nonprofit collaborative entities: Public Health Institutes (PHIs). Many states have developed PHIs that have unique partnerships with government, business, academia, and other nonprofit entities. A majority of PHIs have been involved in Turning Point projects funded by the Robert Wood Johnson Foundation (RWJF). The leaders of individual PHIs recognize that they share many common goals and objectives that can be enhanced through NNPHI, working in partnership with national public health partners. NNPHI is supported through member dues, a cooperative agreement with the federal Centers for Disease Control and Prevention (CDC), and a grant from the Robert Wood Johnson Foundation.





The 25 members of NNPHI have been in operation for periods ranging from one to forty years. There are also many emerging PHIs at various stages of development—from early consideration, to active organizing, to functioning start-up. In the spring of 2003, NNPHI's *Fostering Emerging Institutes Project* (FEIP) was introduced to help emerging public health institutes develop appropriately, operate efficiently, and benefit from the lessons learned by the full-fledged NNPHI members that have gone through the development process before them. NNPHI provides technical assistance to the staff and boards of emerging public health institutes so that they are able to fill their roles with skill and confidence, and help fulfill institute missions.

The process of starting a PHI can be quite challenging. The *Guide for Emerging Public Health Institutes* (the guide) is meant to ease that process by outlining developmental steps and describing lessons learned by established PHIs. The guide is not meant to replace the technical assistance that the NNPHI staff provides to emerging PHIs, but it may be used as a starting point and as a quick reference. Although the guide is intended primarily for emerging PHIs, a great deal of the information may be useful to established PHIs as well.

Contents of the Guide

The guide contains chapters on topics related to PHI development; these topics were chosen in consultation with established and emerging PHIs, and cover the major steps in starting a PHI. Each chapter of the guide follows a standard format:

- Brief Description of Topic
- Questions to Consider
- Case Examples from Existing PHIs
- Resources

I C O N K E Y	
	Brief Description of Topic
	Questions to Consider
	Case examples
	Resources

For many of the topics covered in this guide, there is a wealth of information available on the internet. Some specific Web sites are listed in the “Resources” sections at the end of each chapter.

NNPHI also recommends the following useful resources, which are referenced many times throughout the guide:

- Free Management Library: <http://www.mapnp.org/library/>
- Community Toolbox: <http://ctb.ku.edu/>
- Internet Nonprofit Center: <http://www.nonprofits.org>
- Turning Point Products: <http://www.turningpointprogram.org>

In addition, NNPHI has compiled numerous documents in its file library, which is available on-line to representatives of emerging PHIs. Individual items from the NNPHI File Library are listed at the end of each chapter. A password and user ID are needed to access these documents. Please contact the NNPHI office for details.

Special Acknowledgements

NNPHI appreciates the Robert Wood Johnson Foundation for its support of the Fostering Emerging Institutes Project, and in particular, for providing the grant support that made this publication possible. The Robert Wood Johnson Foundation, based in Princeton, New Jersey, is the nation’s largest philanthropy devoted exclusively to health and health care. Its grant making has four primary goals: to assure that all Americans have access to quality health care at a reasonable cost; to improve the quality of care and support for people with chronic health conditions; to promote healthy communities and lifestyles; and to reduce the personal, social and economic harm caused by substance abuse.

NNPHI also acknowledges the Centers for Disease Control and Prevention for its core support of NNPHI under Cooperative Agreement U50/CCU620289. The support given by the CDC and the Robert Wood Johnson Foundation does not constitute an expressed or implied endorsement of the opinions, products, or services mentioned in this publication.

Many individuals have contributed their time and expertise to the development of this guide. NNPHI extends sincere thanks to Susan Hassmiller of the Robert Wood Johnson Foundation for her continued support. NNPHI also thanks the staff of the Turning Point National Program Office, including: Fred Abrahamson, Betty Bekemeier, Bobbie Berkowitz, Marleyse Borchard, Jennifer Griffin, and Bud Nicola. NNPHI also appreciates the countless contributions of its members.

NNPHI specifically thanks senior staff of its member organizations, including G. Elaine Beane, Joe Hafey, Joe Kimbrell, Jim Simpson, Donna Sofaer, and Jeffrey Taylor. Wherever possible, individual contributions are noted in the text. Finally, NNPHI would like to thank Sujata Naik and Scott Stafford for their research, editorial, and coordination efforts.

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SECTION ONE

Legal Basis for PHIs

PHIs generally have a legal basis, that is, a foundation document with legal standing. This basis may be as formal as authorizing legislation from a state legislature, or as informal as a memorandum of agreement in which private organizations agree to support a new PHI. Regardless of the legal basis chosen, the positive and negative aspects of the chosen mechanism should be carefully considered. The legal basis of a PHI has major effects on governance, leadership, reporting relationships, and operations. The major legal bases for PHIs are discussed in this section.



Authorizing Legislation

By G. Elaine Beane, Ph.D.

Authorizing legislation provides directives as to the mission, purposes, partners, and structure of a PHI. Several PHIs have been formed on the basis of authorizing legislation. Other existing PHIs have been recognized through resolutions passed by state legislatures. Some authorizing legislation for PHIs has been driven by government agencies; other authorizing legislation has been developed through public-private partnerships.



Questions to Consider

When should a public health institute seek authorizing legislation?

Parties interested in developing a PHI must decide early in the process whether or not to pursue authorizing legislation, because the legislation plays a major role in determining the type of institute that will be formed. If authorizing legislation is sought, the major characteristics of the PHI must be planned early. This will, however, prevent disruptions later in the development process. A PHI that has already been formed and is in operation could be disrupted in major ways by authorizing legislation. For such a PHI, a legislative resolution that provides recognition may be a better alternative.

What are the potential benefits of authorizing legislation?

Authorizing legislation may:

- Allow the institute to withstand legislative inquiries.
- Allow the institute to be appointed as an agent for the state in particular programs or projects.

- Allow the institute to enter into contracts to perform a mission without a specific line-item appropriation.
- Allow for a sole-source master contract, through which the state can decide at the beginning of every year how many projects are going to go to the institute.
- Allow for hiring flexibility (e.g., public health institute not restrained by state hiring freeze).
- Function as a placeholder for future appropriations, even without an initial appropriation.
- Provide a link between the legislature and the institute as legislators change.

What is the process for passing legislation?

The process proceeds as follows:

- The basic rationale for having a PHI is developed.
- The basic purpose and structure of the PHI is stated.
- Prospective partners are identified and agree on a PHI in principle.
- The partners identify, educate, and inform supportive legislators.
- A vehicle for moving the legislation is identified (an existing statute, a resolution, a policy or budget bill with related content, etc.).
- Specialists develop PHI language for the bill, being careful to specify major categories of purpose and function, but leaving flexibility for operations.
- The legislative vehicle is introduced by a supportive legislator with the PHI language attached.
- The relevant legislative subcommittee in the House or Senate considers the bill. Amendments may be made.
- The subcommittee votes and sends the bill to the full committee. Amendments may be made.
- The committee votes and sends the bill to the full House or Senate.
- The House or Senate deliberates, votes, and sends the bill to a House or Senate conference.
- House or Senate conference deliberates, votes, and sends the bill to the governor for signature.
- The signed bill becomes part of the “compiled laws” of the state.

If a PHI is already operating, but does not have authorizing legislation, is there an advantage to going back and seeking a statute linking the PHI with the state?

There could be a huge advantage to more direct contracting capability. If a PHI has already successfully bid on projects of interest, however, the advantage may not be worth the effort and the risk required to obtain authorizing legislation. Assess potential partnerships and determine whether it is worth the effort. Assess competitors and detractors, and determine whether it is worth the risk. A resolution recognizing the PHI as a resource for the state might be a better option.



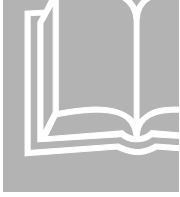
Case Examples

MAINE In the early 1990's, the Bingham Program funded an effort to build state and university health research capacity, revealing the need for public health training in Maine. A feasibility study for a Maine-based school of public health, conducted in 1993, concluded that lack of infrastructure would render development problematic. However, the study concluded that a public health institute might successfully address Maine public health workforce and infrastructure deficiencies, in addition to other issues.

In 1994, the Maine Legislature established a health care reform commission to make recommendations for establishing a state-based insurance system. The commission realized the need for recommendations concerning work force, quality of care, data issues and public health. After considerable input from key stakeholders, the commission drafted a legislation package that included a recommendation to establish a center for public health practice in Maine. This legislation passed (it is based on Michigan's legislation, although it is less university-based) and focused on setting up a consortium of public and private organizations, including academic partners, to collaborate and set up the center.

MICHIGAN A statute (an amendment to the public health code) authorized the state public health agency to establish a nonprofit corporation in partnership with public universities in the state. To keep the legislation general, a very broad mission was crafted to encompass public health research, evaluation, and demonstration. Policy and planning mandates were added, as well as a clause that provides for "any other project considered appropriate by the board of directors." This approach allows the Michigan Public Health Institute (MPHI) to enter into agreements with five different state agencies, not just the public health agency, because health activities occur in 19 of the 20 state departments in Michigan.

NEVADA The Nevada Public Health Foundation (NPHF) is an independent 501(c)(3) corporation, but it does not have authorizing legislation. NPHF considered getting authorizing legislation, but decided against it because to do so would have substantially affected its business practices. There are few regulations pertaining to nonprofit organizations in Nevada, but there are many requirements attached to quasi-governmental agencies. Authorizing legislation would have affected NPHF's contracting procedures, personnel practices, disbursements, and many other aspects of operations.



Resources

NNPHI File Library

The following documents are available for download from the NNPHI File Library (<http://www.nnphi.org/library/default.asp>):

- Maine Center for Public Health Practice (MCPH_Authorizing_Legislation.pdf)
- Michigan (MPHI Authorizing Legislation.pdf)
- Concurrent Senate Resolution for Louisiana PHI
- Virginia Senate Resolution
- Summary of NNPHI Teleconference on Authorizing Legislation

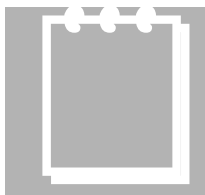
Relevant Web Sites

The Access Project is a national initiative of the Robert Wood Johnson Foundation, in partnership with Brandeis University's Heller Graduate School and the Collaborative for Community Health Development. Of particular interest are resources related to public policy and legislation. See <http://www.accessproject.org>

Books and Journal Articles

Reynolds, M. and Leahy, E. (2002). Developing a public health training institute through public health improvement efforts: Montana's story. *Journal of Public Health Management & Practice* 8(1), 83-91.

Meredith, J, and Dunham, C. (1999). *Real Clout: A How-to Manual for Community Activists Trying to Expand Healthcare Access by Changing Public Policy*. Boston, Massachusetts: The Access Project. [This manual has relevant sections and a useful bibliography.]



501(c)(3) Application Process

By NNPHI Staff

Most public health institutes decide to become independent legal entities. One way to accomplish this goal is to apply for 501(c)(3) status as a nonprofit organization. A nonprofit organization is an entity that is organized so that its net earnings do not inure to the benefit of individuals or other persons in their private capacity (Hopkins, 2001). To qualify for nonprofit status in the United States under section 501(c)(3) of the Internal Revenue Code (IRC), an organization must apply to the Internal Revenue Service (IRS) using Form 1023. The IRS reviews applications and notifies applicants when the application is approved.



Questions to Consider

What are the advantages of filing for 501(c)(3) status?

Advantages of 501(c)(3) status include (IRS, 2004):

- Exemption from federal income tax.
- Eligibility to receive tax-deductible charitable contributions.
- Exemption (in some cases) from certain employment taxes.
- Potential increase in tax-deductible donations from individuals and corporations.
- Eligibility for grants from foundations and other institutions that issue grants only to permitted beneficiaries.
- Exemption (in some states) from state income, sales, and property taxes.
- Reduced postal rates. The U.S. Postal Service offers reduced postal rates to certain organizations.
- Organizational and programmatic independence.

Do I qualify for 501(c)(3) status?

There are three key requirements for an organization to be exempt from federal income tax under section 501(c)(3) of the IRC. A not-for-profit (i.e., nonprofit) organization must be organized and operated exclusively for one or more exempt purposes.

What are the differences between public charities and private foundations?

Generally, a public charity [501(c)(3)] has a broad base of support while a private foundation has very limited sources of support. This classification is important because different tax rules apply to the operations of each. Organizations that receive a substantial part of their support in the form of contributions from publicly supported organizations, governmental units, and/or from the general public are statutorily classified as public charities under section 509(a) of the IRC (IRS, 2004).

What is an advance ruling?

A new organization that cannot show that it has received enough public support to qualify as a 501(c)(3) outright may request an advance ruling of its status. At the end of its advance ruling period, usually five years, it must file a schedule showing its sources of support. If the schedule indicates sufficient public support, the organization receives a definitive ruling of its public charity status. If the organization does not meet the public support requirements at the five-year point, it could be reclassified as a private foundation. Unless the organization is committed to raising funds from the public and publicly supported entities, it may be more appropriate to consider alternate statutorily-based public charity classifications (IRS, 2004).



Case Examples

LOUISIANA The Louisiana Public Health Institute (LPHI) was incorporated on July 1, 1997. On July 11, 1997, LPHI applied for tax exempt status by completing Form 1023. An attorney from one of LPHI's partner organizations prepared and reviewed the application. LPHI received IRS approval as a 501(c)(3) in August of 1997.

OKLAHOMA The Public Health Institute of Oklahoma (PHIO) received its IRS letter of determination of 501c3 status in 2004. PHIO is currently operated by a volunteer board of directors and is co-sponsoring several events with partners at the University of Oklahoma Health Sciences Center as well as other partners on topics including county

board of health training, adolescent sexual health planning, and improving care for the seriously ill.



Resources

References Cited in this Chapter

Hopkins, B. (2001). *Starting and Managing a Nonprofit Organization: A Legal Guide*. (3rd ed.). New York: John Wiley & Sons, Inc.

IRS (Internal Revenue Service). (2004). Applying for 501(c)(3) Status. Retrieved April 15, 2004, from <http://www.irs.gov/pub/irs-pdf/p4220.pdf>

NNPHI File Library

NNPHI staff has printed copies of successful 1023 applications from several public health institutes. If you would like a copy, please contact the NNPHI office.

Specific Contacts

State bar associations for referral to appropriate attorneys.

State nonprofit associations for advice and referral.

Relevant Web Sites

IRS guide for non profits and charities

<http://www.irs.gov/charities>

Applying for 501 (c)(3) tax exempt status

<http://www.irs.gov/pub/irs-pdf/p4220.pdf>

Help for 501(c)(3)'s Filling Out IRS Form 1023

<http://www.form1023help.com>

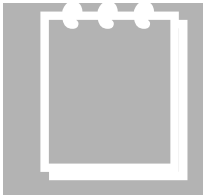
The 501(c)(3) monthly letter features articles by leaders in the nonprofit world on such varied topics as fundraising, grants, computerization, communication, special events, working with volunteers, selecting board members, attracting media attention, postal rate savings, and more.

<http://www.nishna.net/501c3/>

<http://www.nonprofits.org/npofaq/keywords/3h.html>

Books and Journal Articles

Deja, S. (2002). Prepare Your Own 501(c)(3) Application: How to Make the IRS Love Your Form 1023. ISBN 0-9724644-9-2.



Subsidiary or Subunit Status

By G. Elaine Beane, Ph.D.

At present, six of NNPHI's 25 members are subsidiaries or subunits of other organizations or entities. This chapter will examine issues particular to a public health institute that is a subsidiary or subunit of another organization or entity.

Governments, nonprofit entities (foundations, agencies, universities, or any combination thereof), and (in rare cases) for-profit entities may set up nonprofit public health institutes (PHIs) by creating a subsidiary. In doing so, the parent entity might be able to achieve objectives that are difficult to pursue within the framework of its normal activities, mission, or legal status. There is a wide range of structural possibilities. The great majority of the subsidiaries and subunits have been generated by universities, where it is relatively simple to charter a named institute or center within the university structure. Governments have had a more difficult time setting up such an arrangement.

Subsidiaries and subunits tend to be much less uniform than 501(c)(3) corporations, which are required to have articles of incorporation, bylaws, and boards of directors that must also comply with a substantial body of federal statutes and must file certain tax reports (e.g., Form 990).

A subsidiary or subunit could be set up as a 501(c)(3) corporation, but most are not. This permits the parent organization to avoid the cost of establishing and maintaining a 501(c)(3), and allows greater control over the subsidiary or subunit. Under these circumstances, the laws or regulations that govern a subunit would be the same ones that govern the parent entity.

Subsidiaries may be set up in a wide variety of legal formats, each with varying legal and reporting requirements. Subsidiaries and subunits have a wide range of boards, advisory committees, administrative structures, and so on. When forming a subsidiary or subunit, it is a good idea to seek legal counsel that is expert in relevant federal and state statutes. Subsidiaries and subunits need to be well aware of the compliance responsibilities of the parent entity.

Control of a subunit is usually accomplished through reporting relationships between the management of the subunit and the parent organization. For example, a center for public health policy within a university may have an advisory board, but control over budgets, personnel, and activities may be exercised through reports submitted to the relevant university offices, and through the interaction between the center director and the dean of the college.

A subsidiary may have greater independence than a subunit, and is usually controlled through interlocking or overlapping boards. A subsidiary may act as a separate entity, with its own management, finances, and board meetings. There should be clear communication and trust between the parent and the subsidiary, and it is wise to have a written document that spells out the operational agreement between the two (BoardSource, 2002).



Questions to Consider

Are there any advantages to being a subsidiary or subunit when it comes to funding?

Institutes that are subsidiaries or subunits may receive core funding from their parent organizations. Subsidiaries and subunits may also receive core services (e.g., accounting, human resources, and compliance services) from the parent entity. Funding agencies may be reassured by the capacities of the parent organization to perform fiduciary and compliance functions, and to ensure that work is performed appropriately.

Are there any disadvantages to being a subsidiary or subunit when it comes to funding?

Institutes that are subsidiaries or subunits may be prohibited (by their parent organizations) from directly seeking appropriations from state legislatures; contracts from federal or state agencies; or grants from federal or state agencies, or private foundations (e.g., proposals must be approved by the grants and contracts office or the development office at a university). Decisions as to mission, goals, activities, staffing, and finances are under the surveillance and, to some degree, the control of the parent organization. This relationship will constrain the decision making of subsidiary or subunit managers. The parent organization may not be eligible for certain categories of funding, or may have historical conflicts and negative relationships with potential funders of the subsidiary or subunit. Under these circumstances, the subsidiary or subunit may share in the negative consequences of these relationships.



Case Examples

ARKANSAS The Arkansas Center for Health Improvement (ACHI) was established in 1998 through an organizational affiliation with the University of Arkansas for Medical Sciences. ACHI is governed by an independent, nonpartisan, self-perpetuating 21-member health policy board that advises ACHI and stimulates its strategic thinking. In 2003, an administrative committee was formed, separate from the health policy board, to approve the budget and hire a director. This committee is composed of representatives from the three sponsoring organizations: the University of Arkansas for Medical Sciences, the Arkansas Department of Health, and Arkansas BlueCross BlueShield.

GEORGIA The Georgia Health Policy Center (GHPC) was established in January 1995 to provide facilitation, research, and staff support for the Georgia Coalition for Health, a 501(c)(3) organization whose board was composed of representatives from four constituencies: Georgia businesses, healthcare providers, the public sector, and a group representing healthcare consumers. With financial support from the coalition, foundations, and other public contracts, GHPC served as a forum for consensus building among diverse interest groups, developing health policy recommendations and implementation strategies for improving health and strengthening the healthcare system in Georgia. Although the Coalition was an independent 501(c)(3) organization, GHPC was attached to Georgia State University (GSU) to achieve administrative efficiencies and to allow staff access to state benefits. Over time, GHPC was able to diversify its funding and become less reliant on resources from the coalition specifically. Although the coalition is no longer active, the group's original work plan and primary goals—consensus building and an ensuring inclusive approach to policy development—serve as the foundation of GHPC's current mission and signature style.

In 1998, reorganization within Georgia State University created the opportunity for GHPC to become a fully integrated center within the Andrew Young School of Policy Studies at GSU. The primary benefits of its status as a subunit of the university are that: (1) designated state resources flow through the university and are made available to GHPC as “hard money” (as compared to “soft money” generated through contracts) resulting in organizational flexibility, (2) space is provided by the university in return for some percentage of the overhead generated through GHPC's projects, and (3) a collegial academic environment promotes evidence-based decision making and adds to the value and richness of GHPC's work. These advantages far outweigh the challenges of: (1) creating an identity for GHPC that is visible even within a large university setting, and (2) balancing pressures to teach and publish to gain academic credibility while responding to ongoing requests for policy recommendations based on current issues.

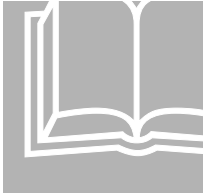
GHPC recommends that emerging institutes that operate within larger university settings seek to: (1) access “hard money” or other multi-year, non-designated funding to support the organization’s development and flexibility; (2) build relationships with other academic units to strengthen work, gain credibility within the institution, and translate insights and results into the classroom and the field; and (3) build an identity while benefiting from, and contributing to, the reputation of the school in which the institute resides.

ILLINOIS The Illinois Public Health Futures Institute (IPHFI) is a subsidiary of the United Way of Illinois. IPHFI was established in 1997 by the Illinois Department of Public Health to conduct systems-level strategic planning. IPHFI subsequently became a grantee of the Turning Point Program, funded by the Robert Wood Johnson Foundation. IPHFI has its own 29-member steering committee, representing public agencies, community coalitions, academia, the faith community, and industry. Affiliation with the United Way of Illinois provides IPHFI with access to benefits at better group rates than could be negotiated otherwise. IPHFI is also working with the United Way to identify opportunities for shared advocacy and business development activities that will strengthen both organizations.

NEW MEXICO The University of New Mexico (UNM) Institute for Public Health (IPH) was created by the UNM School of Medicine in 2002 to help the school address health problems and disparities within the state. IPH’s agenda outside the school is to partner with various agencies to bring the school to the table in addressing pressing public health needs. IPH’s agenda within the school is to build public health as a major element within the medical curriculum, build public health awareness, provide public health orientation to faculty research initiatives, and engage the school’s academic expertise in informing state health policy. The institute exists because of UNM interest in applying school resources to address unmet public health needs. IPH’s location makes it vulnerable to the changing interests and priorities of school leadership. Nevertheless, its university location is an inherent part of its primary goals, which tie to the university.

NORTH CAROLINA The North Carolina Institute for Public Health is the service and outreach arm of the University of North Carolina (UNC) School of Public Health. The institute’s mission, "Serving our State, Leading the Nation," reflects its commitment to serving those who practice public health in North Carolina—the institute’s top priority. The institute benefits from being associated with the UNC School of Public Health. UNC enjoys strong support across the state, leading to the funding of programs such as: accreditation of local health agencies, the Public Health Incubator Initiative, and workforce development initiatives. The institute is also home to the national Public Health Leadership Institute, the Management Academy for Public Health, the Emerging Leaders in Public Health program, the North Carolina Center for Public Health Preparedness, the North Carolina Center for Genomics and Public Health, and Active Living by Design (a national healthy communities initiative). The institute also benefits from being a subunit of the school by having access to faculty and students for institute projects.

The institute encourages those considering this approach to discuss it with an institute representative, since there are very real challenges along the way. These challenges relate to the fact that the institute's service-oriented mission differs from the missions of academic departments, which are research- and teaching-oriented. Furthermore, although the institute receives limited state funding, it depends mostly on "soft money" and must always be looking ahead to see what programs are fundable—a challenge common to all public health institutes.



Resources

References Cited in This Chapter

BoardSource (2002). BoardSource. Retrieved April 15, 2004, from
<http://www.boardsource.org>, <http://boardsource.org/QnA.asp?Category=18>,
[http://boardsource.org/getMore.asp?tbl=QnA&set=\(3,14,41,49,51,58,59,65,73,83,89,91,11\)](http://boardsource.org/getMore.asp?tbl=QnA&set=(3,14,41,49,51,58,59,65,73,83,89,91,11))

Specific Contacts

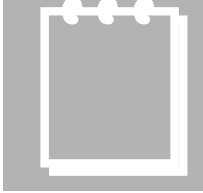
State nonprofit associations may have information on this topic. Universities have been in this business for a long time, and frequently have legal staff who can discuss the advantages and disadvantages of various types of subsidiary and subunit relationships. NNPHI has not yet identified additional resources.

Relevant Web Sites

<http://www.nonprofits.org/npofaq/keywords/1w.html>
<http://boardsource.org/QnA.asp?Category=8>

Books and Journal Articles

Hopkins, B. (2001). *Starting and Managing a Nonprofit Organization: A Legal Guide*. (3rd ed.) New York: John Wiley & Sons, Inc.



Filing Articles of Incorporation

By NNPHI Staff

A nonprofit organization may become a corporation by preparing and filing articles of incorporation, the primary legal document of a corporation. A board of directors gets its authority from these articles (McNamara, 2004).

The requirements for articles of incorporation are different from state to state. Secretary of state Web sites may be the best place to find the requirements and appropriate forms. Articles of incorporation may include the following information about an organization (BoardSource, 2002; Hopkins, 2001):

- Its name.
- A general statement of its purpose(s).
- The name(s) and address(es) of its initial director(s).
- The name and address of its registered agent.
- The name(s) and address(es) of its incorporator(s).
- Language referencing the applicable federal tax law requirements.
- Duration of its existence (often perpetuity).
- Whether or not this is a membership organization.
- Provisions for distribution of assets when the corporation is dissolved.

Articles of incorporation should remain as general as possible within the framework of applicable state laws. It may be advantageous to include only what the law requires. An organization's bylaws, which are more easily amended, cover the specifics of governance, including details of governance structure. Organizational policies and procedures secure the rest of the guidelines necessary for effective and ethical organizational functioning (BoardSource, 2002). Please see Chapter 2.2 for additional discussion of bylaws.



Questions to Consider

Why should a PHI incorporate?

Organizations decide to incorporate for a number of reasons; including, but not limited to:

- Individuals working for the organization want protection from personal liability for the organization's activities (liability insurance will still be required for the members of the board, and professional liability insurance will be required for the staff).
- The organization wants to form a corporate identity. This is particularly important if there are multiple founding partners (Nolo.com, 2004).

What changes require an organization to amend its articles of incorporation?

Sometimes major changes in an organization's status, activities, or structure require an organization to amend and file an updated copy of its articles of incorporation. Once again, these requirements vary from state to state. Changes that require the filing of updated articles of incorporation may include (BoardSource, 2002):

- A change in the organization's name or address.
- A substantial change in the organization's mission.
- An alteration of the provision for the disposition of assets if the organization is dissolved.
- A change in the way board members are selected (e.g., from a formal membership structure to a self-perpetuating board, or vice versa).

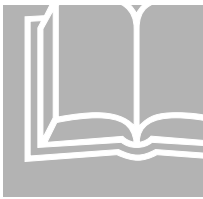


Case Examples

LOUISIANA The Louisiana Public Health Institute (LPHI) successfully submitted articles of incorporation in June 1997. LPHI was established for the purpose of advancing the shared responsibility of public health in preventing disease and promoting positive health practices through collaboration in health information, research, education, training, and policy development. LPHI was established via a planning process that included the Louisiana Office of Public Health; the Tulane School of Public Health and

Tropical Medicine; the Louisiana State University (LSU) School of Medicine; the Southern University Cooperative Extension Program; and the Xavier University of Louisiana, College of Pharmacy. The planning process was facilitated by representatives of the Michigan Public Health Institute. Having received the endorsement of the Louisiana State Legislature in the form of a concurrent resolution ratified by the president of the Senate and speaker of the House, LPHI was able to successfully apply for a grant from the Baptist Community Ministries for initial operational funding.

MICHIGAN The Michigan Department of Public Health successfully sought authorizing legislation in 1989 for the establishment of a nonprofit public health corporation in cooperation with public universities in the state. Articles of incorporation were filed in 1990 for the Michigan Public Health Institute (MPHI). In these articles, the Michigan Department of Public Health, Michigan State University, the University of Michigan, and Wayne State University are identified as founding members. Each has representation on the board of directors, and shares in the disposition of assets if the organization is dissolved. Several years thereafter, the Michigan Department of Public Health was succeeded by the Michigan Department of Community Health. The name of the institute was not changed because that would have required reopening and re-filing the articles of incorporation.



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- Nolo.com (2004). Five Reasons to Incorporate Your Nonprofit Association. Retrieved April 15, 2004, from <http://www.nolopress.com/lawcenter/ency/article.cfm/objected/F63DD4C1-456C-418F-A1066A3F3FBE05A5>

NNPHI File Library

The following documents are available for download from the NNPHI File Library (<http://www.nnphi.org/library/default.asp>):

- Articles of Public Health Institute of California (ARTICLESOFINCORPORATION.PHI.pdf)
- Articles of Incorporation Of Michigan Public Health Institute (MPHI Articles of Incorporation.doc)
- Articles of Incorporation Of Louisiana Public Health Institute (LPHI Articles of Incorporation.doc)

Relevant Web Sites

http://fdncenter.org/learn/faqs/html/starting_nonprofit.html

<http://boardsource.org/QnA.asp?Category=18>

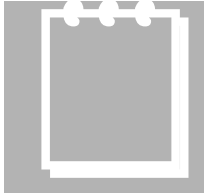
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SECTION TWO

Governance



Selecting a Board of Directors

By NNPHI Staff

A board of directors is a group of people having managerial, supervisory, investigatory, or advisory powers (Merriam-Webster, Inc., 1997). The type of board needed by a PHI is dependent upon the legal basis for the PHI, as discussed in Section 1. This chapter looks at the types of boards and board members required by, and appropriate for, each legal basis. This chapter also considers the changing role that a board and its members play as the needs and priorities of a PHI change.

Legal Bases and Boards

501(c)(3). There are both federal and states laws governing the characteristics and operations of 501(c)(3) corporations—a designation that applies to many PHIs. It is a good idea to read at least summaries of the federal statutes and IRS accounting circulars for 501(c)(3)s, dry reading though they may be. It is even more important to be acquainted with the state laws enabling 501(c)(3)s, since these vary by state. As noted in Section 1, an attorney expert in these laws (both federal and state) is needed to set up the corporation and provide counsel on articles of incorporation and bylaws. Boards are the governing structures accountable for the policies and actions of public health institutes that are 501(c)(3) corporations. The board is described in the organization’s bylaws. The functions of 501(c)(3) boards include (Ingram, 1996):

- Determining an organization’s mission and purpose(s), within a framework of enabling legislation, articles of incorporation, and bylaws.
- Selecting a chief executive.
- Supporting a chief executive and assessing his or her performance.
- Ensuring effective organizational policies and planning.
- Ensuring adequate resources.
- Managing resources effectively.
- Determining, monitoring, and strengthening an organization’s programs and services.
- Enhancing an organization’s public standing.
- Ensuring legal and ethical integrity and maintain accountability.
- Recruiting and orienting new board members, and assessing board performance.

The composition of a 501(c)(3) board may be determined by its articles of incorporation, its bylaws, or both. In some cases, PHIs are enabled by state legislation with specification of the founding entities to be involved. Each of founding entity (e.g., universities, state agencies) will need or want to have representatives on the board. This type of board has legal obligations: (1) to the people of the state and nation (who have given up tax dollars to charter the PHI as a nonprofit corporation); (2) to the governments, foundations, and other funders who support the projects of the organization; and (3) to the organization and its employees. Prospective board members should be capable of understanding and fulfilling these legal obligations, and should be willing to do so. Board membership is a considerable responsibility and should be fully explained to all candidates.

Other Legal Bases. If a PHI is a wholly-owned subsidiary of another entity, or a subdivision of a larger entity, the board may have diminished legal responsibilities. A PHI set up as a wholly-owned subsidiary of another for-profit or nonprofit entity may or may not be a 501(c)(3). If a PHI is not an independent, nonprofit corporation, then the structure and composition of the board is likely to be determined by the goals of its parent entity. A PHI established by and within a university does not need to be a separate 501(c)(3) corporation. Under these circumstances the board may have advisory and oversight functions, but a chief executive officer (CEO) may be chosen by and may report to the dean of a college or the provost of a university. The parent entity retains responsibility for compliance with federal and state law, compliance with the terms and conditions of grants, and compliance with overall policies. The parent entity also retains fiduciary responsibility. The board for this type of institutional subunit will have a constrained range of responsibilities and powers; in effect, it is an advisory board.



Questions to Consider

Do I establish the board prior to filing for 501(c)(3) status?

Generally the board is not established prior to filing for 501(c)(3) status, although tentative identification of board members may begin before filing. Articles of incorporation or bylaws may set the number of board members and their affiliations and roles. For example, a PHI may be a 501(c)(3) whose founding entity and only funder is a state agency; in that case (assuming state law permits this), articles of incorporation and bylaws are likely to require that all board members are administrators from the state agency. In the case of the Michigan PHI, the state legislation that enabled the organization specified that the state public health agency and state research universities would be involved. Articles of incorporation and bylaws set out the maximum number of

board members and the initial number of board members, and specified how those slots should be allocated among the state agency and three research universities.

How many directors should we have on the board?

NNPHI's current members have boards ranging in size from eight to 24 members. Boards with an even number of members have the potential for reaching deadlocked positions. Such a board will operate as a consensus body; if it cannot reach consensus, it will not make a decision. If the organizations or individuals represented on a board may be in conflict on important issues in the early life of an institute, it is preferable to have an odd number of board members. This will decrease the number of occasions on which the board is unable to reach a decision. This strategy may not be feasible if some or all of the founding partners wish to retain the ability to block decisions. A new PHI may need a board that is able to perform some administrative functions, since there may be insufficient PHI staff to conduct the business of the organization. If this is the case, a board of at least 10 members is needed. The drawback of this approach is that the board becomes accustomed to involvement in the day-to-day operations of the organization. As the PHI grows, the board will experience a difficult transition to consideration of policy—and only policy—rather than day-to-day operations. If the PHI is well established and has a large book of business, it may need a larger board simply to perform oversight functions. The larger the board, and the more complex the board structure becomes (e.g., having an executive committee, a financial committee, subcommittees, etc.), the more challenging it will be to staff and manage. A new PHI should seek a board just large enough to perform the tasks required, but with minimal structural complexity. The Independent Sector (<http://www.independentsector.org/>) recently convened a “Panel on the Nonprofit Sector” at the encouragement of the US Senate Finance Committee. The panel is detailing new guidelines concerning the development of a board of directors.

What organizations and/or individuals should be represented on the board?

PHIs are characterized as having a multi-sector systems approach to improving health status and fostering innovations in health systems. Therefore, it is important that their boards be representative of the different sectors engaged in the health arena. Board members of established PHIs represent multiple sectors; including, but not limited to, government, health care, academia, business, media, and community based organizations (IOM 2002). The bylaws of each PHI usually stipulate whether particular board seats will be for individuals or for institutions. In all cases, board members should be chosen on the basis of their individual knowledge, experience, current position, interest in the welfare of the PHI, and willingness to accept board responsibilities. Members of a 501(c)(3) board should also have knowledge and experience in dealing with the financial and legal issues relevant to nonprofit corporations. It is difficult to ensure that any or all of these conditions are met if the institution chooses its board representative(s) without input from the PHI. Most established PHIs work hard to maintain cordial, cooperative relations with

the leadership of the institutions having representatives on the PHI board of directors. A new PHI should not be surprised if the institutional representatives on the board are relatively marginal within their own institutions. As a PHI grows and matures, institutions appointing representatives to the board will be more willing to appoint persons with roles of greater institutional significance. Boards may also include *ex officio* seats filled by representatives from state agencies or universities. These individuals are on the board “by virtue of office or position.” In these cases, the institutions are guaranteed a seat on the board, and have a voice in board deliberations. Legal questions about the autonomy of the PHI may arise, however, if the board is dominated by representatives from only one institution. It is important, therefore, to have multiple institutions represented, and to have some members elected or appointed as individuals. At the other end of the spectrum, the Public Health Institute’s (<http://www.phi.org>) board is made up of individual directors, not representatives of institutional “members of the corporation.”

How long should the terms for my board members be?

Among established PHIs, three-year terms for board members are most common. It takes time to understand various aspects of a PHI. A new PHI might start out with a small board, all of whose members have two-year terms, with the express condition that in the second year the bylaws will be changed to establish staggered terms (e.g., one-third of the board with two-year terms, one-third with three-year terms, and one-third with four-year terms) Many PHIs have staggered the terms of their board members so that there is not wholesale turnover at one time. The Michigan Public Health Institute has a 12-member board with staggered two-year terms. MPHI’s Executive Director has indicated that it would be preferable to have staggered three-year terms, with one-third of the board up for replacement or for renewal appointment each year. For board positions with the most responsibility, such as chair, the PHI bylaws could require that the chair-elect serve for one year before starting his or her term, so that experience and understanding are gained before the role is occupied. If the bylaws stipulate that the chair is an *ex officio* position, such an apprenticeship may not be feasible.

How does the board know what their responsibilities are?

Each PHI should create a guidebook for its board of directors. This guidebook should include a code of ethics and conflict of interest statement that the board should sign annually. The guidebook should also include duty of care, duty of obedience, and duty of loyalty guidelines that will define the roles, limits, and responsibilities of the board for the PHI.

What are board committees?

The boards of many nonprofits, including PHIs, set up board committees in order to delegate certain tasks or obligations. These committees can either be standing or ad hoc. Some typical board committees include (McNamara, 2004):

- Executive committees, which oversee the operation of the board and often perform evaluations of the CEO. These committees often act on behalf of the board during on-demand activities that occur between meetings; these acts are later presented for full board review. The committee may include the chair, chair-elect, immediate past chair, secretary, treasurer, and other officers.
- Audit committees, which plan and support audits of major functions, such as finances, programs, or organization.
- Board development committees, which ensure effective board processes, structure, and roles; functions may include retreat planning, committee development, and board evaluation.
- Evaluation committees, which ensure sound evaluation of products, services, and programs, including outcomes, goals, data, analysis, and resulting adjustments.
- Event or program committees, which plan and coordinate major events, such as annual meetings, presentations for partner organizations, team building, and planning.
- Finance committees, which oversee development of the budget; ensure accurate tracking, monitoring, and accounting for funds; ensure adequate financial controls; and review major grants and associated terms and conditions. These committees are often led by the board treasurer.
- Program development committees, which guide development of service delivery mechanisms and provide a link between the board and program staff. Committee duties may also include evaluation of services.
- Nomination committees, which identify needed board member skills, suggest potential members, and orients new members. This committee performs similar function for the executive committee.

Is an executive committee required for a board to function?

An executive committee is not required by law. For the Michigan Public Health Institute (<http://www.mphi.org>), it has been a useful way to process administrative business and set the agenda for the full board. It is also considered to be a better approach to handling confidential information (e.g., hiring and firing, lawsuits, and the like) than airing confidential or sensitive matters at full board meetings. It also keeps the full board functioning at a policy and planning level, as opposed to micro-managing the administrative operations of a PHI.



Case Examples

KANSAS The seven-member Board of the Kansas Health Institute includes six individual members who are broadly representative of the state's population. The seventh member of the board is the Kansas Health Institute president and CEO. This arrangement has advantages in terms of diversity and avoids compliance issues with respect to

institutional dominance. The board membership was, however, static for its first eight years, and moving to a system of staggered terms was difficult.

LOUISIANA The twelve-member Board of the Louisiana Public Health Institute (LPHI; visit <http://www.lphi.org> for additional information) includes representatives from academic institutions, public health schools, the city health department, the state public health department, Area Health Education Center (AHEC), and the cooperative extension program. Seven LPHI directors are *ex officio* representatives of these organizations. Five additional directors are selected and approved by unanimous vote of the directors, based on identified needs and expertise. Board members have staggered three-year terms. As LPHI has evolved, the board has become more broad-based, with more emphasis on private sector representation.

OHIO The selection of the Board of Directors for the Health Policy Institute of Ohio (HPIO) is based, to a large degree, on the initial vision that founded the Institute and on the Institute's continuing source of core funding.

The vision for founding HPIO came from a number of regional foundations in Ohio, all of whom saw the need for a state-wide, nonpartisan institute to deliver research and analysis on health policy issues to legislators and policymakers. As a result, eight foundations came together to found HPIO. Each of these foundations agreed to contribute five years of funding to the core operations of HPIO.

Because these foundations have such a vested interest in the success of HPIO, all of them are represented on the Institute's board of directors. Each foundation that contributes \$100,000 a year of core funding is given one slot on HPIO's Board. As a result, the board is made up of four foundations that each have one senior staff member on the board, one foundation that has two members on the board (because this organization contributes twice the minimum amount per year), and two foundations that each give \$50,000 per year in core funding and thus share one board member slot between their organizations. The Institute also has a tiered funding option— with specified benefits for contributing money— for groups who want to assist in HPIO's work but are unable to give funds at the \$100,000 level. Funders at this level are not given a seat on the board.

Having HPIO's Board structured in this manner has meant that the directors are very passionate and committed to the success of the Institute. This setup also gives the Institute's funders strong incentive to help the Institute create secure financial setup for the future. In fact, the board has taken it upon themselves to do most of the leg work in seeking new core funding for HPIO, freeing the Institute staff to focus on other work.

TEXAS The Texas Institute for Health Policy Research was created in 1964 as the Texas Hospital Education and Research Foundation. The organization received its primary funding through the Texas Hospital Association (THA) to fund health care workforce scholarships in Texas. The board was made up of THA members from across the state. Recognizing that health care was changing, that the number of uninsured

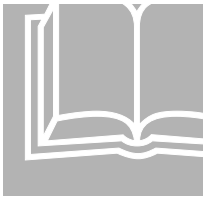
Texans was increasing, and that reimbursement issues were on the rise, board members created a leadership committee to assist in the transformation of the foundation into an institute. In 1997, the newly formed institute's primary focus was on health policy research aimed at understanding emerging environments in health care. Money was tight as primary funding dropped dramatically. The institute looked to recruit board members with diverse interests and leadership profiles in their particular area of expertise. Financially, each board member was (and still is) asked to contribute \$20,000 per year to assist in supporting the institute's operating base.

A significant challenge in the formation or transformation of any board (including the institute's board) is obtaining and maintaining a high level of leadership. The institute has followed the "pyramid model" in recruiting board members. The pyramid model of recruitment identifies three levels of board representation as follows: an *A*-level member is a decision-maker, influence leader, and financially capable contributor; a *B*-level member is a mid-manager type; and a *C*-level member is a non-decision-maker who serves as a representative or delegate. The pyramid model states that an *A* type can recruit in all categories (*A*, *B*, and *C*), a *B* type can only recruit other *B*s or *C*s, and a *C* type can recruit only other *C*s and below. By maintaining a board composed largely of *A*-type members, an organization can draw on their leadership, influence, and financial capabilities, and can have access to the individuals or groups that they influence. It is best to look for board members who are leaders and who are willing to commit to an organization with their time, their influence, and their resources (e.g., people, money, and equipment).

Board members should be able to assist in the setting of organizational goals and objectives, to support staff in the implementation of programs and projects, and to initiate action to support the organization's goals. It is imperative that board members understand the organization's mission, goals, and objectives. These must be clearly communicated on a consistent basis through orientation, board meetings, newsletters, e-updates, and other means. Communications are the single most important tool in recruiting and engaging board members in the organization's activities. It is important to tell the board what the organization is doing, to listen to board ideas, and to provide timely thanks.

Currently, the institute has nine staff members and 30 board members. Board member profiles range from the CEO of a major public hospital to the CEO of an international information technology (IT) firm. The board meets four times a year and attendance has been high at each meeting. All board members are required to contribute \$20,000 per year, with the exception of government representatives. Most board members are actively involved in leadership roles on institute projects.

In closing, recommendations for new emerging institutes are: to be patient—carefully identify the best people to represent an institute in a board-member capacity; to keep your board well informed and actively engaged in institute activities; and, most importantly, to thank board members on a regular basis, both privately and publicly, for their service.



Resources

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NNPHI File Library

The following documents are available for download from the NNPHI File Library (<http://www.nnphi.org/library/default.asp>):

- Board and Staff Responsibilities
- Board Attendance Policy
- Board Manual Contents Checklist
- Board of Directors—Board Resolution Certification
- Board of Directors—Self Evaluation
- NNPHI notes regarding Composition of Boards
- Some Legal Considerations for Board Members
- Ten Basic Responsibilities of Nonprofit Boards
- Typical Types of Board Committees
- MPHI Code of Ethics for Directors and Employees
- Responsibilities of Directors and Officers of MPHI
- MPHI Conflict of Interest Statement

Relevant Web Sites

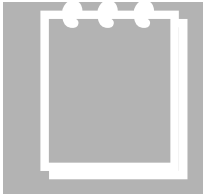
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<http://www.independentsector.org>

Books and Journal Articles

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Adopting Bylaws

By NNPFI Staff

Bylaws are an organizational document that contains its rules of operation; in some jurisdictions, the term “code of regulations” is used (Hopkins, 2001). Bylaws cover the specifics of governance and provide detail on governance structure (for example, description and operations of a board of directors). Bylaws also reflect the organization and its mission. A 501(c)(3) corporation is required to have bylaws. Since bylaws may serve to protect (or make vulnerable) an organization in legal matters, it is advisable to have an attorney with appropriate experience review the bylaws. Bylaws are more easily amended than are articles of incorporation. Well-written bylaws can improve the operations of a board and the relationship between the board, the CEO, and the upper management of an organization.



Questions to Consider

What are the steps to writing bylaws?

1. Gather example bylaws from similar organizations for reference.
2. Decide how and by whom bylaws will be written and approved.
3. Appoint a subgroup of the board of directors to work with those drafting the bylaws.
4. Write a first-draft set of bylaws.
5. Review and revise the draft bylaws with the board subgroup; repeat as necessary.
6. Meet with the board as a group to discuss the proposed bylaws.
7. Complete and approve the final-draft set of bylaws.
8. Make sure copies are given to those who need them.
9. File and register with a 501(c)(3) application (if applicable).
10. Use the bylaws! Bring them to all board meetings for reference purposes.

What are some common issues covered in bylaws of public health institutes?

Public health institute bylaws commonly cover:

- Members of corporation.
- Board of directors (composition, terms, and operations).
- Compensation for the CEO and upper management.
- Meetings of the board.
- Conflict of Interest
- Duties of the board, CEO, and upper management.
- Financial matters and responsibilities.
- Record keeping and reporting for the board, CEO, controller, and upper management.
- Amending the bylaws.

How often should the bylaws be reviewed?

Bylaws should be reviewed periodically (at minimum, every five years) to ensure they continue to reflect an organization's needs with regard to (PageWise, Inc., 2002):

- Changes in constituent demands (in the case of a membership organization).
- Changes in corporation membership.
- Changes in organization mission.
- Changes in organization operation.
- Responses to specific situations.
- Practices that need documenting.
- Changes in social or legal environment.

Are bylaws public documents?

In the strictest sense, bylaws are not public documents, but it is a good idea to treat them as though they are. Bylaws are the internal rules and regulations that guide a board's activities. As a reference document, when filing for tax-exempt status, it is a good idea to include bylaws if they already have been drafted. Those filing for 501(c)(3) status must demonstrate that the organization has bylaws, although they can be sent in after the initial filing if necessary. When incorporating an organization, bylaws can provide helpful information about the organization. Even if the law does not consider a set of bylaws to be a public document, willingness to distribute a copy on request increases accountability and transparency in the eyes of the public, clients, and regulatory bodies. Treating bylaws as a public document encourages a board to pay careful attention to bylaw contents (BoardSource, 2002).



Resources

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NNPHI File Library

The following documents are available for download from the NNPHI File Library (<http://www.nnphi.org/library/default.asp>):

- BYLAWS OF THE PUBLIC HEALTH INSTITUTE A California Nonprofit Public Benefit Corporation (BYLAWS.PHI.doc)
- Louisiana Public Health Institute Bylaws (lphibylaws.doc)
- BYLAWS OF MICHIGAN PUBLIC HEALTH INSTITUTE (MPHIBYLAWS98.doc)

Relevant Web Sites

<http://fdncenter.org/learn/faqs/html/bylaws.html>

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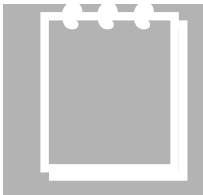
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Establishing Policies and Procedures

By NNPHI Staff

Policies and procedures are necessary for the smooth functioning of an organization. They are also required for compliance with state and federal laws, and for legal demonstration of “due diligence.” Public health institutes, as nonprofits, have fewer regulations than governmental public health agencies, which must comply with federal and state public health regulations, civil service regulations, and procurement rules. PHIs do, however, still need internal rules and regulations regarding workplace behavior, use of company assets, responsibilities, and compliance with federal and state regulation laws. Some examples of categories of policies and procedures include:

- Board actions
- Building and technology issues
- Compliance
- Contract proposals
- Ethics
- Financial and administrative functions
- Managing intellectual property
- Operations
- Employment
- Program activities
- Sharing credit among partners
- Structure



Questions to Consider

Who sets the policies and procedures?

Policies and procedures are usually proposed by the CEO and approved by the board of directors. The bylaws of a PHI usually specify the approval process. Board approval of the employee handbook, which contains guidance for most areas of workplace behavior, is particularly important. Changes in policies and procedures may be approved throughout the year by the CEO, and submitted for board approval once or twice per year. Policies related to compliance (e.g., a privacy and confidentiality policy) would probably be submitted for board approval as soon as CEO approval is received. Policies and procedures become legal documents in the event of an audit or a lawsuit. Therefore, the board has a major interest and role in ensuring that policies are appropriate.

It is important to remember that the policy and procedures manual is not only a guide for employees, but for the PHI as an employer. For example: If an organization states that benefits include health insurance coverage after 6 months of continuous employment, then the PHI as an employer is responsible for ensuring that the benefit is provided by the timeline outlined.

Which policies and procedures are most important for an emerging public health institute?

Once an organization has received its formative legal documentation, the bylaws are approved by the new board of directors, and should specify the composition, terms, and actions of the board, as well as responsibilities for generating and approving policies and procedures. The most important policies to consider initially are those governing compliance activities and personnel, since these areas are heavily regulated and offer many opportunities for inadvertent error. Essential policies and procedures can be assembled by copying those of similar nonprofit organizations in your state, seeking examples on the Internet (universities often post their policies and procedures), or hiring an experienced consultant to write them. Employee handbooks should be reviewed by an experienced labor lawyer before they are sent to the board for approval.

The physical handbook or manual generally includes a page outlining the contents, the mission statement of the organization, and a form to be signed by each new employee verifying that they have read and understand the policies. Major categories that should be outlined in the body include, but are not limited to:

1. Equal Employment Opportunity
2. Conditions of Employment

3. Compensation
4. Employment Procedures
5. Employee Performance Evaluation
6. Employee Fringe Benefits
7. Employee Leave Policy
8. Employee Separation & Discipline
9. Sexual Harassment
10. Building & Office Procedures
11. Ethical Standards/Conflicts of Interest

When should an organization set new policies and procedures?

Once a basic set of policies and procedures is in place to cover compliance and human resources concerns, new policies should be set as the need arises. A policy would become necessary when an organization does not have prior guidance for a particular problematic activity or event. For example, if a disruption occurs in the workplace, a new policy would be put in place to: (a) reduce the likelihood of reoccurrence, (b) specify how such a disruption should be handled, and (c) specify the sanctions for noncompliance with the policy.

Are any policies and procedures legally required for 501(c)(3)s?

Every company has to obey labor laws, contracting and procurement laws, and federal accounting regulations. It is prudent to have company policies that require employees to comply with applicable federal and state laws, and to have specific policies relating to behaviors that could harm the company—sexual harassment, for example. Nonprofit companies are heavily regulated at the federal and state levels. It is wise to have policies and procedures that take this fact into account.

Do funders require any policies and procedures?

Whether or not a funder requires specific policies and procedures depends on the funder. Such requirements are usually made clear in the RFP, terms and conditions of a grant, or contract terms. Contracts and grants from governments often cite specific sections of regulations, and it is important to actually find the cited regulations, read them carefully, and implement company policies and procedures if appropriate.



Case Examples

MICHIGAN The Michigan Public Health Institute (MPHI) initially based its employee handbook on that of another small Michigan nonprofit company. As MPHI grew, a patchwork of policies and procedures was gradually added to deal with problems as they arose. About six years after MPHI was founded, it reached the 100-employee level. It became clear that an organized effort was needed to overhaul the employee handbook. Special software provided hundreds of templates for specific policies, some of which had never been considered but were deemed necessary; others were rejected. A separate review was conducted of existing policies that previously had not been included in the handbook. Administrative and programmatic staff did most of the handbook writing and editing. After a year of development, the new handbook was sent for legal review. About two years after the process was started, the new employee handbooks were distributed and all staff were required to receive training on the changes. More recently, the handbook has been published on the MPHI intranet, and a notice goes out to all employees when a change is made. The most recent handbook change deals with revision of the privacy and confidentiality policy, and procedures needed to bring MPHI into compliance with federal Health Insurance Portability and Accountability Act (HIPAA) regulations and other federal confidentiality rules. This is necessary because MPHI has many projects that include analysis of personal health information. Mandatory trainings for all employees were conducted by MPHI's privacy officer (a position required under HIPAA).

NEW YORK The Medical Health Research Association of New York City (MHRA) has a series of corporation-wide policy and procedure manuals, namely: the Guide to Corporate Policies and Procedures, the Human Resources Guide for Managers, the Employee Handbook, the Institutional Review Board (IRB) Guidebook, and the Privacy Policies and Procedures manual. In addition, the fiscal and IT divisions have their own detailed manuals specific to their work. The human resources department is responsible for generating the material for the Guide for Managers and the Employee Handbook. The Guide for Corporate Policies and Procedures has three sections: (1) human resources, (2) accounting, and (3) contracts; the respective managers of these areas are responsible for these policies. The Institutional Review Board Guidebook is managed by the research division. All policies are reviewed by the organization's senior managers before they are finalized. Policies related to conflict of interest and other matters of ethics are approved by the board of directors. Policies related to the institutional review board (IRB) are reviewed and approved by the IRB itself. All new employees receive the Employee Handbook and managers also receive the Guide for Managers. When policies are added or updated, each employee must sign a form stating that he or she has reviewed the change and made note of it in the appropriate manual.



Resources

NNPHI File Library

The following documents are available for download from the NNPHI File Library (<http://www.nnphi.org/library/default.asp>):

Louisiana Public Health Institute
LPHI Personnel Policy Manual 2004

Michigan Public Health Institute
10-02 MPHI Format of Reports
MPHI Final Master Version IP policy
Quarterly Report Procedure

Board Action Related Policies
01-02 MPHI Forecast Activity Report
01-02 MPHI New Project Intake policy
01-03 MPHI Nominations of Affiliations
01-04 MPHI Review of Appropriateness

Personnel Policies
02-02 Hiring MPHI Personnel
02-03 MPHI Payroll Process
02-04 MPHI Scientific Misconduct
02-05 MPHI Confidentiality.doc
02-06 MPHI supplemental employment form.doc
02-06 MPHI Supplemental Employment.doc
02-07 MPHI Sexual Harrassmentform.doc
02-08 MPHI Business Use of Phones NEW.doc
02-08 MPHI Personal Long Distance form.doc
02-09 MPHI Programmatic Responsibilities.doc
02-10 MPHI Employee Work Related Injury.doc
02-10 MPHI Performance Issues Form.doc
02-11 MPHI Legislative Activities.doc
02-12 MPHI Leased Vehicles.doc
02-13 MPHI Employee Compensation.doc
02-14 MPHI Performance Review Policy.doc
02-15 MPHI Customer Service Policy.doc

02-16 MPHI Bonus Salary Increase.doc
02-17 MPHI Telecommuting.doc
02-18 MPHI Vacation Leave Accrual.doc
02-19 MPHI Sick Leave Accrual.doc
02-20 MPHI Personal Leave Accrual.doc
02-21 MPHI Hazardous Duty Pay.doc
02-22 MPHI Safety Belt Use.doc
MPHI DRAFT COMMUNICATION POLICY AND GUIDELINES.doc

Contract-Proposal Related Policies

03-01 MPHI employee security form
03-01 MPHI Subcontract or Employee
03-02 MPHI Intellectual Property
03-04 MPHI Contract Procedure
03-05 MPHI Subcontract Procedure
03-06 MPHI Budget Procedures
03-07 MPHI Project Monitoring
MPHI MDCH Deliverable Submission Form
MPHI Protocol for Deliverables
MPHI re contract authority

Financial Administrative Policies

04-01 MPHI Purchasing Procedures
04-02 MPHI Advance Policy
04-03 MPHI financial Status Report Policy
04-04 MPHI Equipment Depreciation
04-05 MPHI EUC Charge
04-06 MPHI Cash Management

Building and Technology Related Policies

05-01 MPHI Building Security
05-02 MPHI Network Acceptable Use NEW
05-03 MPHI anti-piracy form
05-03 MPHI Software Anti-Piracy Policy
05-04 MPHI Emergency Plan
05-05 MPHI Office Equip. Furniture Inventory
05-06 MPHI Equipment Disposal
10-01 Use of MPHI Conference Rooms
MPHI List of Recommended Software from OTIS
MPHI Spring cleaning-archive
MPHI Telephone Calling Tree

Program Activities Policy

06-01 MPHI Human Subjects Review.doc
06-01a new MPHI IRB.doc
06-02 MPHI Project Development.doc

06-03 MPHI Programmatic Review.doc
06-04 MPHI Budget Change Request.doc
06-04 MPHI Budget Request form.doc
06-05 MPHI Publication Conferences.doc

Relevant Web Sites

<http://www.nonprofits.org/npofaq/keywords/1s.html>
<http://www.mapnp.org/library/policies/policies.htm>



Strategic Planning and Business Plans

By NNPHI Staff

Strategic planning is a systematic process through which stakeholders agree on, and commit to, priorities essential to an organization's mission (Allison and Kaye, 1997). Strategic planning can be used to determine the mission, vision, values, prioritized goals, objectives, strategies, roles and responsibilities, timelines, and other aspects of an action plan. Along a continuum from grand strategy to strategy to tactic, strategic planning sits firmly in the middle of the range. The results of a strategic planning session often include an action plan, which is more tactical and has a lot in common with a business plan.

A business plan is a formal, written document that describes the business, what it does, how it does it, and why (Massarsky, 1988). Drafting a business plan allows a public health institute to define the organization's current status and make plans for future years. The business plan identifies future opportunities for the organization and maps the financial, operations, marketing and organizational strategies that will enable the organization to achieve its goals (Srinivas, 2004). Business plans tend to have a much stronger emphasis on finances and operations than do strategic plans. Both, however, must take into account the strengths and weaknesses of the business, and the interaction between the business and the environment within which it operates.



Questions to Consider

When should strategic planning be done?

Consider the following guidelines:

1. Strategic planning should be done when an organization is just getting started.
2. Strategic planning should also be done in preparation for a new major venture or an anticipated major change in the environment.

3. Strategic planning may also be a valuable exercise that brings the board, staff, and clients of a PHI together to consider their relationships, the business environment, and the future.

What do you do with a strategic plan once you have one?

Strategic plans need upkeep. Once formulated (McNamara, 2004):

1. Strategic plans should be reviewed and modified yearly to be ready for the coming fiscal year.
2. Action plans and business plans should be updated each year.
3. An emerging institute's board should consider reviewing the implementation of action plans and business plans at least on a semi-annual basis.

What are the steps in creating a strategic plan?

To create a strategic plan (INC, 2002):

- Determine readiness by assessing commitment and time availability.
- Determine need by considering the various benefits to be gained from this exercise.
- Articulate a mission and a vision.
- Assess the situation, including the external environment and the strengths and weaknesses of the company.
- Develop strategies, goals, and objectives.
- Complete a written action plan.

What are the parts of a business plan?

A business plan typically includes the following sections:

- Mission statement
- The Team
- Market summary
- Opportunities
- Business concept
- Competition
- Goals and objectives
- Financial plan
- Resource requirements
- Risks and rewards
- Key issues



Case Examples

MISSOURI

The Missouri Institute for Community Health (MICH) had two initial planning phases:

- Pre-planning when a core group of local agencies and the Missouri Department of Health and Senior Services met and established a mission and vision for the organization, decided on the general membership and recruited members. This phase took about five months.
- The MICH planning phase began once the organization was formed, and officers and a board of directors were elected. The board undertook a planning process, meeting monthly. This process took eight months and provided overall direction for the board and the general membership. The plan has been in place for 18 months, and the new board (elected in January) will be revisiting the plan.

An outside facilitator helped the MICH board create its plan. An environmental scan was done, then the group identified major issues, and then priorities were identified. The priorities were further broken down into board priorities and workgroup (MICH has five workgroups) priorities. These workgroup priorities were given to the workgroups to provide them with a direction and allow them to develop action plans.

Since MICH is primarily a volunteer organization, conflicts between MICH's needs and individuals' "real job" responsibilities are always an issue. In addition, although the initial overall plan was to address healthcare access in the state, the first product identified was voluntary accreditation of local public health agencies. The present focus is on the successful launch and implementation of this product, and the broader issues and goals were put on hold.

Workgroups have been successful to varying degrees. They have had to pull back from the broader goals given them by the board and focus on their responsibilities for accreditation (e.g., the health communication workgroup is now developing brochures and a marketing plan for accreditation).

Time spent planning was very useful. The board learned to work together, and the workgroups (chairpersons participated in the planning) became vested in the board and MICH. The next step is the development of a business plan that compliments the strategic plan.



Resources

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- Massarsky, C. (1988). Business Planning for Nonprofit Enterprise. In *The Nonprofit Entrepreneur*. Edward Skloot (Ed.). New York, NY: The Foundation Center.
- McNamara, C. (2004). Free Management Library. Retrieved April 15, 2004, from <http://www.mapnp.org/library>, <http://www.mapnp.org/library/boards/brdcmte.htm>,
http://www.mapnp.org/library/plan_dec/str_plan/str_plan.htm)
- Srinivas, H. (2004). A Glossary of Loan Terms. Retrieved April 22, 2004, from <http://www.gdrc.org/icm/loan-glossary.html>

NNPHI File Library

The following documents are available for download from the NNPHI File Library (<http://www.nnphi.org/library/default.asp>):

- NNPHI Strategic Plan 2002-2003
- Institute for Community Health (Maryland) Strategic Plan 2002-2003 (link to it)
- ACHI Strategic Plan 2002 (have hard copy – obtaining electronic)
- National Association of County and City Health Officials Strategic Plan Summary

Relevant Web Sites

<http://www.nonprofits.org/npofaq>
<http://www.innonet.org>
<http://www.growthink.com/index2.htm>
http://ctb.ku.edu/tools/en/part_D.htm
<http://boardsource.org/catSearch.asp?SuperCatID=20>
http://www.mapnp.org/library/plan_dec/str_plan/str_plan.htm

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Abrams, R. M. (1993). *The Successful Business Plan: Secrets and Strategies*. Grants Pass, Oregon: Oasis Press.

Alter, S. (2000). *Managing the Double Bottom Line: A Business Planning Reference Guide for Social Enterprises*. Washington, DC: Pact Publications.

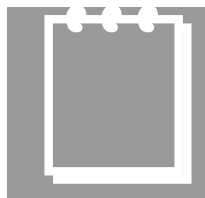
Landy, L. (1989). *Something Ventured, Something Gained: A Business Development Guide for Non-Profit Organizations*. New York, NY: American Council for the Arts.

Massarsky, C. *A Brief Tutorial on Business Planning for Nonprofit Enterprise*. Yale's Partnership on Nonprofit Ventures.

Starkey, K.(1999). *Quantifying Social Costs: A Case Example from Rubicon's Buildings and Grounds Business*. Investor Perspectives, San Francisco: Roberts Foundation.

SECTION THREE

Resources



Forming Strategic Partnerships

By Sarah Gillen, MPH and NNPHI Staff

The Institute of Medicine (IOM) report *The Future of the Public's Health in the 21st Century* stated that governmental public health agencies must develop multi-sectoral partnerships if population-based health goals are to be attained (IOM, 2002). Initiatives such as Turning Point, the National Public Health Performance Standards, and Mobilization for Action through Planning and Partnerships (MAPP) have also embraced the systems approach to public health. Through governance (see Chapters 2.1 and 2.2) and programming, public health institutes play a vital linking role for governmental health departments. Public health institutes may serve as liaison organization that broker relationships between governmental public health agencies and other sectors. It is central to the role of the public health institute to foster partnerships with community groups, academia, private organizations, businesses, and members of the health care system.

The NNPHI's mission statement is to promote multi-sector activities resulting in measurable improvements in public health structures, systems, and outcomes. The NNPHI works in strategic partnership with various entities that aim to improve population health. To do this effectively, it has been essential for the NNPHI to form strategic collaborative partnerships. Many of the NNPHI's member institutes share this mission to work across sectors in an effort to improve the health of their constituencies.

The development of strategic partnerships is a common theme throughout this guide. Specifically, Section 1 discusses the legal basis for PHIs, including the effect that basis may have on strategic partners. Section 2 discusses partnerships as they relate to developing a board of directors and strategic plans for a PHI. Section 3 focuses on resources and operational funding, which can often be identified through or received in partnership with one or more organizations. Finally, Section 4 discusses how partnerships play a vital role in supporting the operations of PHIs, such as expanding the capacity of an organization to maintain quality human resources and support evaluation efforts within an institute.

In addition to forming relationships with core strategic partners, a public health institute may convene community partners to support programmatic activities, such as tobacco coalitions and community collaboratives. Strategic partnerships can vary in complexity, size and type. The relationships may be relatively formal, such as legalized partnerships or corporation, and may entail a seat on the board, a contract for services, or a memorandum of understanding. The basis of the relationship may also be less formal, and may involve sitting on the same committee, attending each other's meetings and events, engaging in regular communication, or maintaining an organizational network.



Questions to Consider

What are the benefits of developing strategic partnerships?

- Increased skills, capacity, and access to shared resources.
- Increased access to a larger network of stakeholders.
- Increased avenues for publicity and communication.
- Reduced duplication of efforts.
- Increased eligibility for grants offered by grant-makers seeking collaborative applications.
- Sharing infrastructure costs.
- Coordination of strategic planning efforts across various types and levels of organizations with a common area of interest or stake.

Who are common partners?

The most common partners of public health institutes include:

- State health departments and other government agencies.
- Universities and colleges, particularly schools of public health.
- Conversion foundations and other funders.
- State public health associations.
- State associations of local health departments.
- Hospital associations.
- State medical associations.
- Businesses and chambers of commerce.
- Other nonprofits.

How does a public health institute form a strategic partnership?

Strategic partnerships should be considered when a PHI is forming and when additional program areas are being considered for the organization. Potential partners in the community that have a clear commitment to the PHI's mission should be identified and consulted about potential forms of collaboration. Fawcett and colleagues discuss seven criteria that should be included in a "model memorandum of collaboration" for community partnerships. Fawcett's criteria could serve as a framework to help a PHI develop its strategic partnerships. In summary, Fawcett's criteria include (Fawcett et al., 2000):

1. Refining the vision or mission of the partnership.
2. Developing an action plan to bring about change.
3. Developing leadership for the partnership.
4. Documenting the process of change and the efforts of the partnership.
5. Securing technical assistance related to the work plan.
6. Securing financial resources for the work to be accomplished.
7. Making outcomes matter to the community (stakeholders).

When should partners be involved?

If a public health institute is to play a complementary role in the public health system, it is extremely important that partners are involved from the beginning. Strategic planning for a public health institute should reflect the collective knowledge and assets of statewide partners. It is also important for public health institutes to form partnerships as early as possible to reduce duplication of efforts, to obtain and extend their technical and operational resources, and to position themselves for future funding.

How does a PHI handle competition with a partner—is it OK to apply for the same grants?

Strategic partnerships form when organizations with similar missions or interests decide to work together. These organizations will naturally discover occasions when they are forced to decide whether or not to compete for resources, such as grants. The Health Research and Education Trust describes a continuum of relationships between organizations that partner together. As partnerships become more developed over time, trust between groups increase and, correspondingly, the likelihood of competition between partners decreases. This is because the partnership's development and investment in collaborative efforts within the partnership become so important that the groups are able to envision how to best share the resources that are available to them. Therefore, whether the groups submit a joint application for funding or go it alone in competition, the trust guiding their relationship supports the decision and holds the partnership together (Torres and Margolin, 2003).



Case Examples

ARKANSAS In May of 1999, following the release of a position paper on Spending the Tobacco Settlement Funds in Arkansas, a broad educational, behavioral and research platform was advanced to address the burden of tobacco use by incorporating investments in expanded health care coverage, professional and public education, targeted research, and successful disease prevention and health promotion strategies. From this development process a single proposal emerged, balanced with short- and long-term health improvement components. The Coalition for a Healthy Arkansas Today (CHART) was formed to advance the plan. Although the coalition was initially composed mainly of health and healthcare advocates, business and community groups joined as information about the burden of tobacco and the rationale for the plan was disseminated.

From September 1999 through January 2000, CHART conducted 24 town hall meetings across the state to inform community leaders and members of the Arkansas General Assembly, and to develop grassroots support of the proposal. After these meetings, the proposed plan was modified to incorporate the Healthy Century Trust Fund, which was to be established with \$100 million to provide a mechanism for continued program funding should tobacco funds cease to flow to the state.

In 2000, after a legislative special session failed to reach a resolution and after conferring with the Senate leadership, Governor Mike Huckabee announced his intention to take the CHART proposal “to the people” in the November 2000 election through a voter-initiated referendum. During the next three months, over 120,000 signatures supporting the ballot initiative were collected (in excess of the 90,000 needed); half were generated by paid canvassers and half were generated by grassroots organizations. In July 2000, the secretary of state validated the petitions and placed the proposal on the November ballot. Some members of the general assembly filed suit in the Arkansas Supreme Court, however, seeking to strike the initiative. In August 2000, the court denied the petitioners’ request in a four to three vote.

With less than two months until the election, CHART mobilized grassroots organizations and information campaigns. The governor (in the middle of a four year term) established the initiative as one of his primary goals for the election. Local tobacco prevention coalitions mobilized networks that were developed years before the Master Settlement Agreement (MSA). Radio and local newspaper advertisements were the principal media outlets available for disseminating information; television advertising was limited

because airtime had been previously procured by hotly contested local, congressional, and presidential campaigns.

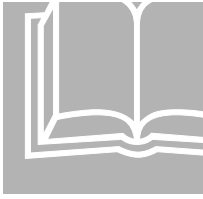
On November 7, 2000, with majority support in 73 of the state's 75 counties, the CHART plan, called the Tobacco Settlement Proceeds Act of 2000, passed with the largest majority in any statewide race that year, receiving 64 percent of votes cast.

Recommendations:

- Build strong support using a data-driven process that examines statistics and needs across a broad spectrum of interested stakeholders and focuses on the health and economic impact of the issue.
- Advance solutions that are linked to scientifically supported programs, CHART used CDC recommendations/best practices for tobacco prevention and control.
- Leadership should have exquisite knowledge of existing legislation containing strategic components that may interact with legislative goals
- Build support from within the legislative, executive and judicial branches of state government.
- Advance principles to guide spending decision

NEW HAMPSHIRE The Community Health Institute (CHI) has long been associated with the New Hampshire Public Health Association (NHPHA). For years the NHPHA was housed within the CHI and the staff were employees of the CHI. The CHI has been an active supporter of the association and CHI staff have served on the board assuming leadership roles such as president elect, president, and treasurer. The CHI has partnered with the NHPHA on a number of projects including serving as the fiscal agent for the NHPHA's application for a successful Turning Point grant from the Robert Wood Johnson Foundation. Until recently, the CHI provided administrative and logistical support to the NHPHA. Since NHPHA is a completely volunteer organization administered by a volunteer board, the CHI was contracted by the NHPHA to provide administrative and logistical support for a small annual fee.

The contract provided full-time phone coverage for the board and members as well as all logistical support for a membership drive, conferences, and other association sponsored activities including producing the newsletter. During a flush period, the NH Department of Health committed substantial funds from the CDC bioterrorism grant to support a full-time director and secretary for the NHPHA. The CHI was contracted by the NH DPH to hire staff and continue to provide administrative support for the association. Unfortunately, due to funding crisis in the state and an administration change, the contract was pulled.



Resources

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Fawcett, S.B., et al. (2000). A model memorandum of collaboration: A proposal. *Public Health Reports* 115, pp. 174-179.

NNPHI File Library

The following documents are available for download from the NNPHI File Library (<http://www.nnphi.org/library/default.asp>):

- Partnership Assessment List for PHIs

Relevant Web Sites

<http://ctb.ku.edu/tools/coalitions/index.jsp>

<http://www.partnershiptool.net/>

<http://www.phppo.cdc.gov/nphpsp/PerformanceImprovement.asp>

<http://www.turningpointprogram.org/>

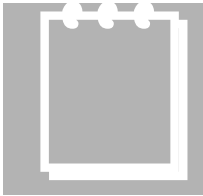
<http://www.naccho.org/topics/infrastructure/MAPP.cfm>

<http://www.mts.net/~dennisgl/partners.htm>

http://www.1000ventures.com/business_guide/strategic_alliances_main.html

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Amodeo, A. and Fraser, D. (2004). *Building Public Health Systems: Case Examples of Collaborative Approaches to Improving Community Health*, Public Health Institute.



Obtaining Operational Funding

By Donna Sofaer

The strategic- and business-plan discussions in Chapter 2.4 provide information about funding needs and how those needs can be expected to change over time. Although there may be a period of time in the beginning when only one project is operating, most emerging institutes will have a longer-term business strategy that includes operating more than one project at a time.

Emerging and mature organizations alike generally incur two distinct types of costs:

Core Operating Costs

Core operating costs include both start-up costs and some limited maintenance costs, covering the basic infrastructure necessary to become and remain a financially viable enterprise. Once programmatic activities are funded (see Chapter 3.4), they will contribute substantially to paying most, but not all, of the ongoing core operating costs over time.

Core operating costs can include the personnel and facilities needed to:

- Establish governance and operational infrastructures, including a board of directors and organizational structure.
- Obtain a physical location for operations.
- Provide standard office operations, such as phones, postage and delivery, and computer equipment.
- Develop and print general marketing and communications materials.
- Seek and raise core- and project-related funds.
- Conduct core public relations activities for the organization.

Program Support Costs

Program support costs include: (1) the costs of achieving programmatic objectives that match organizational purposes (sometimes called "direct" costs), and (2) the costs of

providing for a prorated share of ongoing core operating costs (sometimes called "indirect" costs or "overhead" costs). Specifically, program support costs can include:

- Staff and facilities needed to lead and conduct programmatic activities.
- Other costs that are directly related to achieving the goals and objectives of the project, including consultants, computer equipment, office supplies, postage, printing, meeting and convening costs, and so on.
- Prorated share of core operating costs.

Additional and more thorough information on understanding indirect costs (IDCs) is provided in Chapter 3.3. Likewise, information and strategies for obtaining funding for programmatic activities are also covered in Chapter 3.4. The remainder of this chapter will address funding for start-up and core operating costs.

Seeking Funding

Seeking funds is basically very simple:

- Determine the type of funding mechanism you will seek.
- Identify likely funders, i.e., funders whose goals and objectives are closely matched to the program's mission.
- Make a funding "ask" or apply for a grant.



Questions to Consider

What types of funding mechanisms exist?

Gifts. Gifts are just that—gifts, with no strings attached; yet they are given with the understanding that they will be used to: (a) further the charitable purpose of the receiving organization, or (b) finance a specific activity that furthers the charitable purpose of the receiving organization. Donors (individual or corporate) make gifts because they believe in the mission or the "case" of the receiving organization and believe that the organization and its leadership can productively and appropriately use the donation to accomplish its stated mission. Formal acknowledgements of receipt are required, but no further financial or programmatic reports are needed.

Grants. Grants are financial assistance mechanisms employed by federal, state, and local governments, and by private or public foundations. The purpose of issuing them is to engage, through a written grant agreement, a separate organization that can plan and

achieve a funder's programmatic goals and objectives. Grantees are responsible for completing tasks as indicated in the agreement and for reporting back to the funder at regular periods regarding the expenditure of funds and the outcome of the activity.

Emerging institutes may have funding opportunities in the form of either gifts or grants to provide seed or start up funding, and are likely to utilize both of them in developing an initial pool of core operating support.

Is it important to solicit gifts from individual donors?

At an early stage in an organization's life, gifts are most likely to be given by individuals familiar with the organizational purpose and known to its founders. Members of the board of directors or board of advisors are good candidates for these gifts, and gifts often serve to strengthen the commitment of those individuals to organizational goals. This can be equally true for the founding staff members. If a significant amount of funding is needed from these individuals, however, board members should be selected based in part on their ability to raise money for the organization through their own donations and through donations of their close friends and associates. When raising core operating support from individual donors, it is important that all board members contribute, and that each can be said to be a donor to the organization. This will serve to inspire other gifts and grants. Gifts can also be from organizations in the form of grants or sponsorships. Again, because the emerging institute will have no proof of demonstrated capability at this early stage, the board and founding staff are most likely to successfully raise funds in this manner if they are well connected to potential donor organizations.

Prior to raising funds through individual donors, an appropriate staff person should attend a training and read a basic primer on fundraising, paying special attention to the regulations applicable to both federal and state requirements. In many cases, there is information that must be passed on to donors in any written solicitations and in acknowledgement letters.

Once likely individual donors are identified, all that remains is an "ask." This may occur at one or more initial board meetings very shortly after the group has agreed to accept donations. New board members should be informed during their recruitment that they will be expected to make annual contributions. Proper and legal acknowledgement of all contributions should be made in a timely manner.

What is the grant-seeking process?

A more likely scenario for raising start-up or seed funding for core operations involves foundation or government grants. One or both of these funding mechanisms may be used. The case studies later in this chapter will share some of the real experiences of existing public health institutes.

Typically, if an institute is partnering with state or local government agencies, these agencies may be very good start-up funding prospects. Each state will have different

rules about how this money can be provided, namely, through a grant or a contract. It is possible that in the very beginning, an institute will need these funds to be managed by a fiscal agent. This will keep the institute from diverting scarce staff resources to establish the operational aspects of running a business (setting up payroll offices, accounting functions, etc.) rather than moving the organization toward financial and programmatic solvency.

A better prospective source for more adequate early funding is a foundation whose funding priorities are closely matched with an emerging institute's mission. These foundations can initially be identified through a variety of channels:

- Talking to colleagues for ideas.
- Reading local nonprofit support newsletters.
- Research through commercial databases such as the Foundation Center (online at <http://www.foundationcenter.org>).

In searching the Foundation Center's database, use "seed funding" or "core support" as search terms. Usually it is best if the foundation is located in the same state as the institute because the organizations are more likely to have mission elements in common, but this is not always the case. It is also important to remember that the information stored in the Foundation Center's database is primarily gleaned from tax returns and therefore will be a year or two old. It is always a good idea to check individual foundation Web sites for the most current guidance on funding priorities and types of funding available.

Once a list of potential funders has been identified, the staff and board should evaluate whether there are any existing relationships that can provide an opening for a preliminary discussion with a program officer. A solid relationship with a potential funder will always provide an additional edge when a funding request is considered.

Many foundations only make grants to nonprofit entities. Therefore, it is a good idea to have your nonprofit status established, or to have an affiliation with a nonprofit fiscal sponsor, prior to applying for these grants.



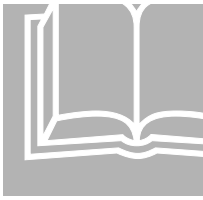
Case Examples

CALIFORNIA The Public Health Institute, now located in Oakland, California, started out in 1964 under an earlier name and in more limited circumstances than emerging institutes will encounter today. Forty years ago, initial funding was very limited; revenues came from vending machines located in California's Department of Health Services offices. These meager funds were used to provide support for the department's objectives. After growing slowly for a more than a decade, the management of this

small, quiet nonprofit successfully bid on a state contract to operate California's cancer registry. Thus flung into a much more extensive role, the board of directors sought and successfully developed a management agreement with a larger, but similar, organization so that operational activities could very quickly become more mature and stable. Over time, additional funding opportunities were identified, applications were submitted with successful outcomes, and the organization began to grow more rapidly. Nearly 10 years ago, the supporting organization decided to cease operations, but by that time the institute was stable and more than strong enough to manage on its own. Many top managers and programs transitioned from the supporting organization to the institute, and today the institute is one of the largest private public health nonprofits in the country. With over \$80 million in annual revenues, and over 550 employees, PHI continues to change the way people think about health, both locally and globally. For more, see <http://www.phi.org>.

LOUISIANA Shortly after its formation in 1997, the Louisiana Public Health Institute (LPHI) received a 3-year, \$300,000 operating support grant from Baptist Community Ministries (BCM), a local conversion foundation. BCM encourages constant collaboration among community partners, including businesses, government, other grant-makers, charities, and individual citizens. Programs funded by BCM endorse themes of self-help, independence, and individual responsibility. Having received this core funding, LPHI was able to successfully administer the Louisiana Turning Point Program. The Turning Point Program proved to be the ideal foundation from which LPHI was able to develop an action plan and strategic direction. Building upon the relationship between the LPHI Board and the Turning Point Program, LPHI was able to secure additional core funding through the Health Resources and Services Agency's (HRSA's) Community Access Program (now known as Healthy Community Access Program). Five years later, LPHI has become a multi-million dollar organization with over 45 employees, and programs that address tobacco use prevention and control, nutrition and physical activity, access to health care, and community capacity enhancement.

MAINE When the Maine Center for Public Health (MCPH) was incorporated in 1999, initial funding pledges came from health systems, foundations, academic institutions, insurance providers, specialty societies, voluntary associations, and others. Funds from the Robert Wood Johnson Foundation's Maine Turning Point Project also supported the center. The MCPH is now supported by two large state contracts that pass through federal funds for prevention and emergency preparedness, as well as grants from the state access foundation, an Area Health Education Center (AHEC) grant, and various small state and local contracts. The MCPH's biggest challenge is to avoid being diverted from its mission in pursuit of short-term dollars. The MCPH also hopes to form stronger academic partnerships to pursue a research agenda.



Resources

Relevant Web Sites

The Foundation Center is a great resource for those getting started. Although information about any specific organization is likely to be a bit old, it can be used to compile a list of health funders in a state. This Web site also provides Web addresses in most instances, so it is easy to go directly to an organization's Web site for up-to-date information. The center now has an online access subscription that is very affordable. Later, it may be worthwhile to subscribe to the entire database available on CD.

- <http://www.foundationcenter.org>

Grantmakers in Health also maintains a very useful Web site. Its list of members provides a good source of potential funders. See also the annual meeting programs to get a sense of what local health funder are interested in.

- <http://www.gih.org>

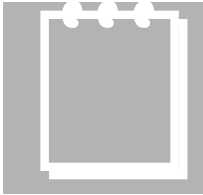
The federal government has come a long way in announcing federal grant and contract opportunities. Their Web site is updated daily.

- <http://www.grants.gov>

The National Institutes of Health and the Centers for Disease Control and Prevention also maintain excellent Web sites promoting opportunities. Some of these opportunities are duplicates of those found at <http://www.grants.gov>, but these contain more detail.

- <http://www.nih.gov>
- <http://www.cdc.gov>

To bid on work, locate a state's contracting opportunities page. Most states with sophisticated Web sites encourage potential contractors to register and use Web utilities to learn about opportunities.



Indirect Costs

By G. Elaine Beane, Ph.D. and NNPHI Staff

In a multi-program organization, all costs can be divided into two types: direct and indirect. Direct costs are those that are clearly and easily attributable to a specific program. Indirect costs are those that are not easily identifiable with a specific program, but that are, nonetheless, necessary for program operation. These costs are shared among programs and, in some cases, among functions (e.g., program, management, and fundraising). The executive director's salary is a common example of an expense that benefits all programs and functions. Other indirect, or shared, costs may include rent, telephone service, postage, printing, and other expenses that benefit all programs and functions of an organization (Alliance, 2003).

Direct costs are easily identified with a specific project. These items can include direct salaries and wages, fringe benefits, materials and supplies, project travel costs, and consultants and subcontracts. Indirect costs, on the other hand, are not easily identified with a specific project, but are of benefit to all projects.

The division between direct and indirect costs varies from organization to organization and from state to state. Nonprofit 501(c)(3) organizations must abide by the definitions of direct and indirect costs in the federal accounting regulations, see Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Nonprofit Organizations* (OMB, 2004a). Universities and colleges are covered by slightly different rules, and must use OMB Circular A-21 (OMB, 2004b).

The basic principle presented in OMB Circular A-122 is that the division between direct and indirect costs must be consistent. Expenses categorized as direct costs must always be direct costs, and expenses categorized as indirect costs must remain indirect costs. For example, the project costs of conducting a telephone survey cannot be considered direct costs on one project and indirect costs on another project.

In general, indirect costs may include:

- **Overhead:** Overhead is related to the oversight and performance of a project and may include labor such as upper-level supervision and general meetings, fringe benefits on overhead labor, facility costs and depreciation, communications and information systems, and general supplies.

- Governance and administration (G&A): G&A is associated with the overall management of the company and can include executive and administrative labor; fringe benefits on G&A labor; professional services, such as those provided by a certified public accountant (CPA); and general office supplies.
- Fringe benefits include paid leave (vacation, holiday, and sick leave), payroll taxes, pension plans, and group insurance (health, life, and disability). Fringe benefits may be considered indirect costs by large entities that self-insure, but most nonprofits keep fringe benefits in the direct-cost category for project staff.

Indirect cost rates provide a uniform method to fund and charge indirect costs. They provide an equitable allocation of indirect costs across all projects. The indirect cost rate is the ratio between indirect costs (pooled) and an equitable base (direct costs). In general, it is a good principle to categorize as many things as possible as direct costs. Many nonprofit organizations charge rent, telephone, and some information systems costs as direct costs, and these items are included in project budgets (calculated as average annual cost per full-time staff person). This approach ensures that these basic needs are covered, and that the expenses are added to the direct cost base for the indirect cost rate.



Questions to Consider

What indirect cost rate do I start with?

A reasonable starting IDC rate for a new PHI is 10–15 percent. This is much lower than the IDC rate of most universities, but high enough to cover start-up administrative expenses and minimal infrastructure. If the initial IDC is too low, the new PHI will not be able to afford essential administrative expenses, such as accounting services, or necessary infrastructure, such as telephones. If the initial IDC is too high, the clients of the new PHI may refuse to pay it, and the new PHI will either lower the IDC or go out of business.

Setting the indirect cost rate for a new PHI depends on many factors, including:

- PHI legal status—a 501(c)(3) nonprofit can independently estimate an IDC rate, but a PHI that is a unit within another nonprofit organization or university will probably use that entity's IDC rate.
- Major client rules—if the PHI is funded by three foundations, none of which pay indirect costs, then all costs will be categorized as direct costs.
- Major client preferences—if the PHI has a primary contract from a government agency that is strongly averse to an IDC over 10 percent, the PHI will have an IDC of 10 percent.
- The extent to which infrastructure costs may be covered by project budgets.

Eventually, after a few years of experience and regular audits, most 501(c)(3) nonprofits work to establish a federally negotiated indirect cost rate, since most state agencies and other funders will accept such a rate as appropriate.

What is a federally negotiated indirect cost rate, and how do I get one?

A federally negotiated IDC rate is an IDC rate approved by the federal government. The “cognizant agency” for approval of IDC rate applications is the United States Department of Health and Human Services (DHHS), acting through its Division of Cost Allocation. The application process requires experience and a track record of financial activity and clean audits. As a precondition for application, a PHI must receive notification of a direct federal grant award. (See <http://www.grants.gov> and <http://www.whitehouse.gov/omb/grants>). For an applicant organization with no federal grant award history, the IDC rate permitted in a federal grant application is 10 percent. Once notification federal grant award notification is received, a PHI may hire an experienced consultant to calculate the IDC rate (usually higher than 10 percent) and to complete the federal application, or a PHI may seek assistance from a partnering university or nonprofit receiving federal grant dollars. The DHHS Division of Cost Allocation (<http://www.dhhs.gov/grantsnet/otherresources/archive/dcastuf.html>) should be consulted early and often during the application and review process. OMB Circular A-122 should be reviewed to make sure that the division between direct and indirect costs is appropriate and consistent.

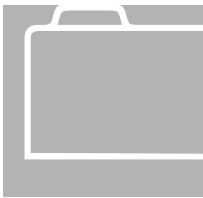
Most nonprofits seek a one-year IDC rate approval, since their mix of projects, funders, and expenses varies from year to year. Universities and other large entities often have multi-year IDC rates to assist in budgeting, but this approach is difficult for small nonprofits, where the loss of even one project may require an adjustment in the IDC rate. If you include fringe benefits in your indirect cost pool, an increase in health insurance rates (a common occurrence) may require a change in your IDC rate. The four regional offices of the DHHS Division of Cost Allocation may differ in the degree to which certain rationales for rate adjustments are accepted. This is another reason for a PHI to consider the services of an experienced IDC consultant in the PHI’s home state.

How do I deal with foundations that refuse to pay indirect costs?

There are several approaches to dealing with foundations that either have a low IDC ceiling or cover no indirect costs:

- Negotiate a variance in their indirect cost policy on the basis that your organization is small and has no other way to cover indirect costs. Send a formal written request for a policy exception with every grant proposal, in addition to talking directly to the responsible program officer.
- Write as many costs as possible into the grant proposal direct cost budget. You may be able to negotiate an arrangement with the program officer whereby a percentage of supervisory personnel and accounting staff time is written into the project budget. This is another reason to have the direct cost pool include as many cost categories as possible.

- If you write a grant proposal in cooperation with a state government agency, it is sometimes possible for the state agency to cover the amount of the indirect costs as an in-kind contribution to the project. In essence, you ask the foundation for an amount equal to the direct costs and ask the state agency for an amount equal to the indirect costs. Both are then contributing to the overall cost of the project. Clearly this depends on the willingness of the state agency to enter into such an arrangement.
- Since you cannot ask one project to pay for the unrecovered costs of another project, you can accept less than your standard IDC rate only if (a) you have unrestricted general funds available to cover the deficiency, or (b) the PHI is large enough to occasionally accept a project with a low IDC rate (but only with the approval of the executive director). Since most small nonprofits do not have such unrestricted funds and cannot afford to accept less than the standard IDC rate, it may be necessary to avoid foundations that do not pay indirect costs.



Case Examples

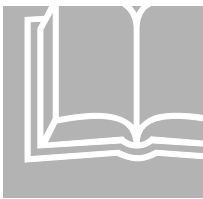
MICHIGAN The Michigan Public Health Institute (MPHI) is unusual in that it has two indirect cost rates, a situation that is normal for universities, but uncommon for nonprofits. MPHI started out (in 1990) with a five percent indirect cost rate on all expenses except equipment (for which no indirect costs were charged). It quickly became apparent that this would not support the necessary administrative infrastructure, and in 1993–1994, the rate was changed to 12 percent on everything except incorporated subcontracts (four percent) and equipment (still no indirect costs were charged).

In 1995, MPHI worked with a consultant to apply for a split federally negotiated IDC rate: a general administrative rate of 15 percent applicable to all costs except equipment and incorporated subcontracts, and a contract administration rate of five percent applicable only to incorporated subcontracts. An application for adjusted indirect cost rates has been made in all succeeding years. The five percent rate on incorporated subcontracts has remained constant, but the general administrative rate has ranged from 15 percent to 16.8 percent. For 2005, MPHI's federally approved rates are 16.1 percent and five percent.

CALIFORNIA The Public Health Institute in California has two federally negotiated IDC rates. The federal government will allow an organization to have more than one indirect cost rate as long as it is justifiable. It may be easy to assert that research programs cost more; they need more money than other programs because there are compliance issues, including IRB requirements, and they take more time for proposal

preparation, federal government reporting, and so on. The institute runs a national alcohol research center as part of an operation that came from another organization. This organization had a core center grant that had an overhead rate of 58 percent. The institute's overhead rate is about 16–17 percent, so that 58 percent included the institute's rate, as well as core management of a very large portfolio of individual RO1 federal grants. Therefore, within the organization there are two different federal rates.

The institute is now looking at whether it can structure a separate rate for all of its other NIH and CDC research. The institute's former vice president for research is in the process of looking at different definitions of "research," seeking one that is fairly narrow. The institute's entire research portfolio has been analyzed to see which funders are paying which rates, and which funders might be willing to increase allocations from 17 percent up to 25 percent for research programs. The federal government will automatically pay a federally-negotiated IDC rate, but foundations will not. Therefore, the institute needs to look at whether any of its research is funded by foundations. If so, a decision needs to be made about whether it is advantageous to increase the federal rate to seek more money, even though money will be lost on a few of the projects that do not carry that rate. [Note: The Public Health Institute, California, is large enough to need multiple rates to support the infrastructure costs for different types of activities. It also is large enough to consider absorbing the losses related to foundation-supported research projects.]



Resources

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- OMB. (2004b). Circular No. A-21, Cost Principles for Educational Institutions. Retrieved April 16, 2005, from <http://www.whitehouse.gov/omb/circulars/index-education.html>

Relevant Web Sites

<http://www.grants.gov>

<http://www.whitehouse.gov/omb/circulars/index-education.html>.

<http://www.hhs.gov/grantsnet/adminis/gam/GAM6100.html>

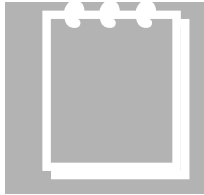
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Resource Development

By Donna Sofaer

Once a mission, vision, values, and governance structure are specified the status of an entity must be established; by applying for status as a nonprofit corporation and as an exempt charitable organization with the IRS, for example. An institute may have chosen to work with an existing fiscal sponsor—an existing 501(c)(3) that can provide eligibility as a charitable organization—or it may have applied to become an eligible charity. An institute also may have considered the options, and may have adopted a strategy for covering general administrative expense items while enough core or operating support is developed to put core office and staffing plans in place. For most emerging nonprofit organizations, much of the staff work involved in developing the initial core support is done by board members or other volunteers. The limited cash funds that may be available are donated by board members or friends of the organization and used for items such as postage, meeting expenses, and so on. Once the initial start-up phase has been accomplished; however, it is essential to consider the resources that will be required for the future. Resources that are needed for an emerging institute fall into four basic categories:

- Staff
- Facilities to house the staff
- Equipment and furniture to assist the staff in performing their work
- Information, communication, and compliance systems to facilitate the work, track the work and the funding, and report on the work and the funding.

This chapter will cover some questions and case examples of how to meet and sustain those resource needs on a limited budget.

Once a clear concept or description of initial programmatic work has been formulated, a realistic budget estimate and timeline need to be established. Some organizations assume that the purpose statement underlying their formation as an organization will be accomplished by implementing a single program, and therefore all of their costs will be embedded in that single program. This is rarely true. In most instances, an organization has a somewhat broader mission or vision, and individual programs are the way that a mission or vision is carried out. In most instances, there will be more than one programmatic activity carried out over time. In addition to these individual programs, there are ongoing core, general, and administrative expenses; sometimes also called

overhead or indirect costs. These costs include rent, communications, and printing and reproduction services for the overall organization. Executive director time, fundraising, and corporate activities, such as board meetings, fall into this category as well. Budget estimates for individual programs should include a prorated portion of these costs.

A concept paper should be written in a clear and concise form (no more than three pages in length). Early drafts of this document should be reviewed by individuals both within and outside of the organization. Once these comments are taken into consideration, the concept paper will be easier to read and will make a more compelling case for obtaining foundation support. This document may be used for briefing foundation program officers or other funders. It may also form the basis for a more formal letter of intent or a proposal.

A draft budget should include all costs for a project including:

- Program staff
- Program support staff
- Fringe benefits
- Consultants, if necessary.
- Travel
- Office supplies; including consumables, and small equipment and fixtures
- Communications (phone and fax costs, postage, internet access)
- Printing and reproduction services
- Meeting costs
- Speaker fees
- Subcontracts, if any
- Indirect costs (overhead)
- Other

It may be a good idea to get actual estimates for items so that the budget is both reasonable and realistic. Next-steps are to seek and obtain the funding necessary to implement the concept. The first of these steps is to identify the most likely sources of funding. Potential sources of funding include individual donors, foundations, and the government.

Individual Donors

It is not likely that an emerging institute will have developed a pool of money from individual donors adequate to support significant programmatic efforts. But it may be possible to use this approach if:

- The organization has already developed a logo and has a way to "brand" the invitations, program materials, etc.
- The organization has access to volunteers that can conduct some or much of the fundraising, event planning, event staffing, etc.
- The near-term goal is to conduct a community recognition event.

Events often draw attention to a local need or issue related to an institute's mission. Individuals on the board and friends of your organization can be approached to seed a small fund that can then be used as leverage to attract corporate sponsorship or foundation grants. This seed funding may or may not provide an opportunity for a tax deduction, depending on 501(c)(3) tax exempt status and affiliation with a qualified fiscal

sponsor. The board will be critical to assisting with the outreach to local corporations and foundations. This funding, along with ticket sales and the efforts of the volunteer crew can often provide a great kickoff campaign for a community event that will bring the organization and its mission to the attention of the local advocate community, local media, additional potential sponsors, and foundations. It is important, however, to remember that without very close attention to the budget, events can actually lose money if they fail to raise adequate sponsorships or are unable to sell enough tickets.

Foundations

Foundation grants are often an ideal funding vehicle when an organization is just emerging. Foundations tend to like new partners, new community initiatives, and fresh perspectives on issues of concern to them. Survey board members to identify foundations that they may already be connected with. An ideal tool for identifying and reviewing foundations that might be good prospects is the economical, online version of the Foundation Center database. For a low monthly fee, the center's large database can be searched to identify local and national foundations that share an organization's mission, to review other grants that these foundations have made recently, to learn about foundation board and staff members, and to easily access foundations' Web sites. *Tip:* A foundation's Web site contains information that is more current than what is found in the Foundation Center database. It is important to review each foundation's Web site thoroughly. This information will provide a good idea about whether a foundation would be a good match as a funding partner.

The list should be narrowed down to the three to five prospective foundations that are the most closely matched to the institute with respect to mission and type of work. If possible, arrange a phone call to a program officer to gauge foundation interest in the institute's work. Although most foundations make provisions for applicants to send their ideas ahead for preliminary review, typically by way of a letter of intent, a face-to-face visit will have a more lasting effect. Alternatively, if a community foundation or other nonprofit is hosting a "meet the funders" event nearby, and in the near future, it may be useful to attend. These events provide an opportunity to meet representatives from local foundations, and sometimes offer an occasion to present a very brief concept presentation. Foundation representatives may offer to review a concept paper—an opportunity to be taken advantage of, should it arise. Building relationships with foundation staff is critical to evaluating funding prospects.

Once best-prospects are identified, follow the guidelines posted on each foundation's Web site to make an initial approach. Most of these guidelines are very straightforward. The concept paper can be adapted, as appropriate, to make a case to each funder, based on:

- A thoughtful (and scalable) approach to implementing the proposed work.
- An organization's capabilities, including the experience of the board, staff, and partners.
- The work's anticipated impact.
- A plan for evaluating the work's impact.

- An estimate of the time and total budget needed.

Scalability is important because the foundation may be interested in the proposed work, but may have less money to offer than initially sought. In this case, a modular approach to the work plan can be discussed, or an additional funding partner can be explored.

It is more than likely that more than one funder will be approached simultaneously. A cover letter should inform the foundations about grant-seeking plans and how issues will be resolved in the event that more than one willing funder is identified. In some instances, the funders will each take a "segment" of the funding. Sometimes it is possible to scale up a proposal, and add an additional segment or target group, for example.

This process takes six to nine months and an institute's board and staff members will need to have plans to accommodate this time period.

Government Grants and Contracts

Both federal and state funders provide an array of grants and contracts. Each funding mechanism is subject to a complex set of regulatory and contractual requirements. An institute should be prepared to obtain legal review of the proposed grant or contract document so that the terms and conditions of the agreement are understood. There are some important differences between a grant and a contract. A grant is a mechanism whereby a funding agency specifies a desired outcome (the "what") and an interested party responds with a proposal describing design, implementation, and evaluation plans (the "how"). A cooperative agreement is a type of grant in which a funder continues to be involved with a grantee for the duration of the grant. A contract, on the other hand, is a procurement mechanism in which a funding agency specifies what will be purchased and a contractor supplies that good or service. Typically, the funding agency contributes significantly to program design and the contractor provides the personnel to implement and evaluate the program.

Federal grant opportunities are advertised daily at <http://www.grants.gov> and contract opportunities are advertised daily at <http://www.fedbizopps.gov>. The federal business opportunities Web site (FedBizOpps) also contains links to subcontracting opportunities. The federal government has streamlined these advertisements over the past few years to make more of these opportunities available to small enterprises. The federal grant application process can take nine months to a year. CDC opportunities take somewhat less time.

Most states have a system similar to the federal government's for equitably advertising contracting opportunities. RFPs or requests for applications (RFAs) typically contain the standard contract provisions that will be in the contract when it is awarded.

Professional organizations such as the Society for Research Administrators or the American Independent Research Institutes are a valuable resource for information on seeking and managing federal grants and contracts. In addition, there are many

consulting firms that provide federal and state contracting guidance. There are also certification programs in grant and contract management that address the full array of management and compliance issues. These courses may be useful as an organization grows.



Questions to Consider

How do you create proposals and bids with a small, overworked staff?

In the beginning, bids and proposals are mostly a product of volunteer time. If resources are available, it is possible to hire an experienced grant writer to work on developing ideas into concept-paper format, or into a full proposal. It is important to remember that no other person, not even a skilled grant writer, can write or describe a program or project as eloquently as those responsible for the vision of an organization. Proposal crafting should always be a collaborative process.

How do you cover computer hardware, software, and telecommunications costs?

These costs must be covered by donations, by core operating support, or by cash resources unless they are for the use of the project. In the case that hardware, software, or telecommunications items are put to both project and general administrative use, it is possible to allocate costs proportionally.

How do you acquire furniture and equipment on a very small budget in the beginning?

Furniture and equipment can be donated and/or purchased for very reasonable costs. Often corporations or large employers in your region will have excess/unused furniture that they can donate if you are an eligible charity. Some founders have told of sharing office space with other nonprofits until they could develop resources to have offices of their own.

How do you pay attention to your clients and funders and maintain their good will?

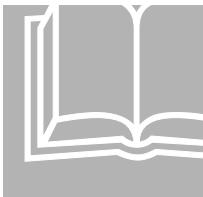
In the beginning, focus energy on building positive relationships. It is important to understand how busy clients and funders are—be prompt in meetings; do not overstay one's welcome; and provide prompt, written thanks for assistance. Keep clients and funders informed, perhaps more frequently than is strictly required. Invite them to events.

Notify them of upcoming project deliverables, such as the publication of toolkits or case studies. Remember that most funders require and appreciate acknowledgement of the role that they play in helping meet institute goals.



Case Examples

CALIFORNIA The Public Health Institute began over 40 years ago by managing the proceeds from vending machines located in state health department buildings. In the early years, the institute stayed small and developed other nontraditional sources of funds to provide additional resources for trainings or convenings led by health department staff. The office was located in an unused corner of a state health department building. Eventually, the opportunity to bid on a contract to assist the state in operating its cancer registry became available. A proposal was put forth and the institute was the successful bidder. This propelled the institute to a larger size, and for approximately 10 years after that success, the institute managed that sudden growth by maintaining an agreement with another organization to economically purchase management and human resource services. Meanwhile, the institute developed skills in successfully seeking and operating a growing number of federal, state, and foundation grants and contracts. Today, the institute has a fully staffed bid and proposal department that works with over 90 active principal investigators and project directors to submit approximately 250 bids and proposals to dozens of funders each year. The institute also has an operations group that supplies accounting services; information technology support; human resources management; a full contingent of grant and contract management specialists; and a legal department that provides operating services, compliance oversight, and budgetary monitoring for the institute's portfolio of work.



Resources

Relevant Web Sites

Alliance for Nonprofit Management: <http://www.allianceonline.org>

The Foundation Center <http://www.fdcenter.org>

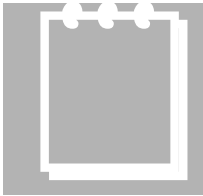
The Grantsmanship Center: <http://www.tgci.org>

Federal contracting opportunities: <http://www.fedbizopps.gov>

Federal grant opportunities: <http://www.grants.gov>

SECTION FOUR

Operations



Contracts

By James B. Simpson, JD, MPH

A PHI can be seen as a complex, evolving network of contractual relationships. For example, relations with employees are fundamentally contractual. Consultants and other service providers are independent contractors. The vendor who delivers office supplies to the PHI, the landlord who leases it space, and its insurance company are all contractors. On the revenue side of operations, the funding agencies that support the PHI do so through contracts and grants.

Contracts create stability and predictability, allowing risk-taking and institutional relationships on a basis other than personal connections. Successful PHI managers should understand the essential elements of contractual relationships, contract documents, and contract negotiation.



Questions to Consider

What is a contract?

A contract is any transaction between two or more parties that: (1) are legally capable of contracting; (2) have a lawful purpose; (3) exchange promises or other valuable consideration; and (4) communicate mutual consent. When these four elements are present, a legally-enforceable contract exists. Some people think that they can avoid legal formalities with documents called "memoranda of agreement," but if the four elements are present, an MOA is a legally enforceable contract.

Who can make a contract?

Adults of sound mind can enter into contracts with each other. So can institutions. But one part of an organization cannot contract with another part of the same organization. Interagency agreements between two agencies of the same government may therefore provide a useful way to document their respective intentions, but these agreements are not enforceable contracts. Questions can arise about who is authorized to sign contracts on behalf of an institution. It is recommended that the board of directors of a new PHI adopt a resolution specifying which agents of the institution have contracting authority.

What is the purpose of contract law?

The purpose of a contract must be lawful; that is, not in conflict with a statute or in violation of public policy. For example, an agreement to pay a kickback to a government official in return for awarding a contract is unenforceable. A contract between two institutions to divide up a market or otherwise limit competition may violate laws prohibiting restraint of trade.

Contract law is designed to facilitate commercial exchanges by enforcing promises made in return for something of value. "Consideration" is the technical term for the *quid pro quo* that makes a promise enforceable. The nature of consideration depends on whether a contract is unilateral or bilateral. For example, the statement "if you submit a subcontract proposal to me by next Friday, I promise to include it in the funding proposal I'm submitting to the government" is a unilateral contract offer. The offeree accepts by submitting the subcontract proposal on time. In a bilateral contract, the promise of one party is consideration for the mirror-image promise of the other party, for example, "I promise to submit a subcontract proposal by the required deadline in return for your promise to include it in your proposal" and "I promise to include your subcontract proposal in return for your promise to submit it to me by the deadline."

Consideration need not have any particular market value. Nor must there be parity of value between the parties' consideration. For example, "I promise to transfer my \$1 million NIH grant to your organization in return for your promise to pay me \$1" is an enforceable promise. Consideration is usually the payment of money or the provision of goods or services. It can also be the relinquishment of a right held by the promisor; for example, "I promise not to sue you for wrongful termination in return for your promise to pay me \$50,000."

Do contracts have to be in writing?

Certain kinds of contracts must be in writing, e.g., contracts that by their terms will not be performed within a year, or sales or leases of real property. Government contracting rules effectively require that government contracts and subcontracts be in writing. The advantage of a written contract is that it provides objective evidence of the four essential elements described above.

What is mutual consent?

Every contract requires mutual assent, that is, the agreement of both parties to enter into the contract. The existence of mutual assent is determined by the reasonable meaning of the parties' actions, however, not by their unexpressed intentions or expectations. Because of this, it is possible to enter into a contract unintentionally. For the majority of contracts entered into by PHIs, mutual assent will be expressed by an "offer" communicated from one party to the other, and an "acceptance" communicated back. An offer must ordinarily make the terms of the proposed agreement reasonably certain. Minor or nonessential details can be left for later agreement. Bear in mind that it isn't always obvious whether a communication is intended to be an offer. For example, most RFP's are a solicitation of offers rather than offers themselves.

What are the essential elements of a contract document?

Most contract documents begin by documenting the four essential elements, followed by discretionary elements and so-called boilerplate. In order to examine contract documents and understand the underlying transaction, it can be useful to ask the following kinds of questions:

- Who are the parties that will be legally bound if the transaction is consummated?
- Do the individuals negotiating the transaction have the authority to bind their principals?
- Is there evidence of legal assent, or a tentative meeting of the minds?
- What is the basic deal (the essential consideration)?
- What are the literal terms and what is the economic reality underlying the exchange?
- What are the risks for each party? Are they being addressed appropriately?
- What is the next best alternative to the transaction for your side?
- Are there any conflicts with existing or pending deals?
- Are there any ancillary agreements or side deals?
- Are actions by third parties necessary for the transaction to be carried out?
- Are there any hidden surprises, time bombs, or missing links in the contract document?
- Are any terms and conditions unclear or ambiguous, deviations from customary business practice, patently unfair or inappropriate for this transaction?

How are government contracts different?

Although government contract law follows the same basic principles as private contract law, there are numerous modifications and special rules reflecting the unique position of the government as a sovereign entity. For example, private commercial transactions are predominantly structured by the parties on a case-by-case basis. By comparison, government contracts are almost entirely structured through laws, regulations, policy manuals, and so on. Part of the reason for this is simply that government agencies are big

bureaucracies — rules and regulations are the way they create operating policies and procedures. Another reason is that legislative bodies use the government's contracting authority to accomplish public policy objectives. Lastly, the government uses the law to frame its preferred contract terms and conditions on a take it or leave it basis.

What are some noteworthy principles of government contract law?

A contract made by a government official who lacks authority to do so is void. So is a contract made by a government agency that lacks authority to contract for that purpose. A contract made in excess of appropriations is void. A government contract not supported by adequate consideration may be an illegal gift of public funds. If a standard government contract clause expresses a significant or deeply ingrained strand of public policy, it will be imputed to be part of a government contract even if it is erroneously omitted from the contract document. The government is immune from liability for breach of contract unless it waives its immunity. The government can require a contractor to resolve disputes in administrative forums. It can limit judicial review. Breaching a government contract may be a crime.

How do grants differ from contracts?

There is a fundamental distinction in government policy between procurement contracts and grants of financial assistance. Financial assistance is awarded to a recipient to support its activities or enable it to carry out a specific project. Procurement refers to the government's acquisition of goods and services from a vendor. As a matter of law, both procurement contracts and financial assistance awards are considered contracts, i.e., binding, legally-enforceable exchanges of rights and obligations.

Are there public policy requirements?

Government agencies have the authority to attach conditions to the receipt of public funds. Using this "conditional spending power," the government can extend its regulatory reach into areas where it might not otherwise have authority. For example, federal government contractors are contractually obligated to follow equal employment opportunity and affirmative action rules.

What is incorporation by reference?

Private contracts usually include all of the operative language of the contract within the physical document. By comparison, government contracts often refer to laws, regulations and policies of general applicability that are not attached to the contract document. These materials are incorporated into the contract by reference. This technique saves paper, but PHI staff who deal with government contracts have to be able to decipher the references, access the incorporated documents, and interpret the contract as a whole even though it lacks physical integrity.

What is subcontracting?

A subcontract is a type of contract in which one party (the subcontractor) promises to perform a portion of the contractual obligations owed by the other party (the prime contractor) to a third party (the funding agency). Government procurements are often so large, complex, and risky that prospective bidders team up, with one acting as the prime contractor and the others as subcontractors.

What is contract performance?

A simple retail purchase contract is agreed upon and performed all at once. But most contracts are "executory" (not fully performed) for some time after they are entered into. During this time the parties have ongoing performance obligations ("covenants"). Some may be contingent on the other party's performance, or the occurrence of some event ("conditions"). Think, for example, of a contract in which a vendor covenants to perform a series of technical tasks, and a purchaser covenants to make partial payment whenever the vendor completes a task, with the vendor's obligation to perform the next task excused on the condition that the purchaser fails to pay for the previous task. Some contractual provisions, such as warranties and indemnities, impose long-term obligations that survive the expiration of the contract term.

Do contracts include implied covenants?

Seldom are contracts drafted with every performance obligation spelled out completely. The concept of "implied covenants" fills in the gaps between what is expressed and what is reasonable for the parties to expect from each other. For example, it is implied that contracting parties will perform in accordance with "customary practice" and "usage of trade." The law in some states implies the existence of a covenant of "good faith and fair dealing;" e.g., honesty, diligence, and avoidance of acts that make performance impossible or deprive the other party of the benefit of the contract. The law also implies a duty to perform with skill, care, reasonable expedience and faithfulness, and a promise that work performed will be fit and proper for its intended use.

Who is responsible for contract interpretation?

In an ideal world, contracts would be in simple, straightforward language with clear and incontrovertible meaning. In practice, contract wording (especially extensively-negotiated clauses) is often unclear and ambiguous. The parties may have neglected to bargain to closure or chosen not to clarify issues that might kill the deal. Maybe they were just in a hurry. Many drafting ambiguities are not apparent until performance begins.

The intent of the parties controls the interpretation of contracts. Intent is determined objectively; that is, on the basis of the intent expressed through the words used in the contract, rather than on the basis of testimony or other extrinsic evidence about the parties' subjective intentions. The wording of a contract is interpreted in its ordinary and

popular sense, but technical words are interpreted as usually understood by persons in the profession or business to which they relate.

Who should negotiate a contract?

People are negotiators. Dealing back and forth with others to satisfy needs and desires is something that people do all the time. There are as many styles and techniques of negotiation as there are different personalities. A skillful contract negotiator does not have to be mercenary or manipulative. The most successful negotiators simply have an earnest style and reasonable candor in presenting their desired outcome.

What are the types of negotiating styles?

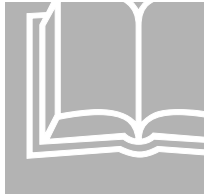
"Aggressive negotiators" treat negotiation as a win-lose proposition. They focus exclusively on advancing their position. They begin with low offers or extreme demands and make concessions grudgingly. They may be deceitful or not forthcoming with information. They make threats and ultimatums. They may act angry or contemptuous. "Cooperative negotiators" treat negotiation as a win-win proposition. They focus on advancing the interests of both parties. They begin with realistic offers based on objective considerations. They share information freely and make concessions to build trust. They do their best to behave in a calm and reasonable manner. "Competitive negotiators" try to get the most out of negotiation. They focus on maximizing their interests while acknowledging the other party's interests. They begin with strategic offers based on principled considerations. They exchange information and make concessions on an equal basis. They use logic and emotion to advocate for their side.

What is the difference between positional and interest-based negotiation methods?

Bargaining on the basis of a position and bargaining on the basis of a set of interests are fundamentally different techniques. Of course, positional negotiators have interests, and interest-based negotiators take positions. The difference is that positional negotiators treat their positions as their ultimate goals, while interest-based negotiators consider a position to be a means to advance their goals. Positional negotiation makes good sense when in the market for commercial goods sold on the open market, like a car or a house. Positional negotiation can also be useful in the final stages of negotiation, where tit-for-tat concessions, splitting differences, and other shorthand techniques can help to close a deal. The downside is that positional negotiators may lack the flexibility needed for give-and-take exchanges, and they may also lack the ability to invent impasse-resolving options. Generally speaking, the most successful negotiators are competitive negotiators who rely primarily on interest-based negotiation methods.

Should contracts undergo a legal review?

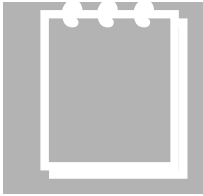
It is not necessary that all contracts be reviewed by a lawyer. Most PHIs, however, will find it worthwhile to have outside counsel or someone on staff available to draft documents for major transactions, provide advice on contract interpretation, and assist in complex negotiations. It is preferable to have someone available to the institution who is familiar with research grants and contracts, as well as general business transactions.



Resources

Relevant Web Sites

<http://www.law.cornell.edu/topics/contracts.html>
http://law.freeadvice.com/government_law/public_contracts/
<http://www.phppo.cdc.gov/od/phlp/index.asp>
<http://www.publichealthlaw.net/>



Accounting and Audits

By Chad Brown, MPH

All businesses, both for-profit and nonprofit, must keep track of dollars coming in and dollars going out. For-profit businesses do this to make sure that the business is profitable and to make tax reports. Nonprofit businesses do this to retain their nonprofit status and to report to their funders. Nonprofit financial systems are set up differently than for-profit ones, and a new PHI needs to make sure that it has appropriate financial systems in place, and that it has finance staff and consultants who understand nonprofit accounting.

Description

Accounting includes recording, reconciling, and reporting financial transactions. The process of recording, summarizing, and analyzing financial activities enables leaders and managers of organizations to make informed judgments and decisions is a significant area of responsibility for almost any nonprofit organization. The leaders and managers of a new PHI should develop basic skills in nonprofit accounting procedures and financial management. It is important for a new PHI to obtain accounting expertise from an outside consultant or a partnering nonprofit organization, particularly if staff is not strong in this area. It also may be advantageous to select a board member with significant accounting skills and experience to serve as treasurer. An active board treasurer can be a valuable resource in during the start-up period, and can help to ensure the long-term financial stability of the organization.

Definitions

Bookkeeping includes entering transactions into journals (either paper or electronic), making adjustments, and preparing reports. A bookkeeper is the person actually keeping or tending to the books. Conversely, an **accountant** sets up the bookkeeping system, monitors it, and interprets the results. The accounting process is much less mechanical and more subjective (Universal Accounting 2005).

A **chart of accounts** is a listing of all the accounts in the general ledger; each account accompanied by a reference number. To set up a chart of accounts, various accounts need to be defined by the organization. Each account should have a number to identify it. It is worthwhile to put thought into assigning account numbers in a logical way and

following any specific industry standards. If, for example, you have two different project grants from one foundation, you might create the account numbers 20046-05 and 20047-05, in which 20 indicates the foundation, 046 and 047 indicate the specific projects, and 05 indicates the fiscal year (NetMBA 2005). All transactions entered into the records for a specific account will include the account number. This makes it possible to generate financial reports for each account or for each funder during a particular fiscal year.

Fund accounting serves to facilitate expenditure control and stewardship reporting in the public sector. The concept of separate record keeping for separate funds is not difficult, but care must be taken that fund-accounting-based financial reports are presented in a straightforward manner, since separate reporting on a large number of separate "funds" quickly becomes confusing. In fund accounting, it is standard practice to distinguish between a general fund and special-purpose funds. The general fund normally provides the resources required to operate the agency on a day-by-day basis (overhead or indirect costs). The wages of administrators, costs of building maintenance, and general office expenses may be items that are chargeable to a general fund. By contrast, special funds are established to yield accountability for separately identifiable activities that make individual control procedures necessary or desirable (CPA Finder 2005).

A **cash flow statement** is an important financial statement for a new organization. The overall purpose of managing cash flow is to make sure that enough cash is on hand to pay current bills. Businesses can manage cash flow by examining a cash flow statement and by developing cash flow projections. The cash flow statement includes a report of the total cash received, minus the total cash spent, over a specified period. A new PHI may have cash flow problems unless it starts out with a large grant payment, an advance on a contract, or a reserve fund that can be used as a buffer.

An **income statement** provides a picture of how well a nonprofit is operating. This balance sheet depicts overall financial status at a fixed point in time. Total assets, minus liabilities, determine overall net worth (or net loss). These statements often are referenced when applying for funding.

A **budget** is an itemized summary of estimated or intended expenditures for specific items over a given period. Budgets typically include the following major categories of expenditures: salaries and fringes, supplies and materials, equipment, travel, other costs, and indirect costs.

- *Project budget*: the total sum of money allocated for the expenses related to a particular purpose or period of time. Most project budgets are developed according to the rules of the project funder. Federal and state agencies, and most large private foundations, have their own budget forms and reporting requirements.
- *Cost reimbursement budget*: a type of budget that must be carefully estimated, since the grantee or contractor is reimbursed based on actual costs incurred—the grantee provides proof of each expense allowed under the grant, and the funding agency reimburses the documented amount up to the total amount budgeted.
- *Deliverables-based budget*: a type of budget that carries significant risk (or benefit) for the grantee or contractor, since an agreed-upon payment is made only upon

delivery of a task or product. It is a good idea to first do a cost reimbursement budget (to get a clear idea of likely costs) before estimating a deliverables-based budget.

A **budget deviation analysis** regularly compares expected versus actual earnings and expenses. The budget deviation analysis will detect how well plans are being followed; assist in budgeting for the future; or display upcoming problems in spending (McNamara 2004). This report may also be called a plan-to-actual report, and is particularly important in assessing progress on a project. Funded projects have a work plan or timeline linked to a budget, and if spending is behind schedule, it is likely that the project is behind schedule.

In managing program finances, there are two major types of costs to consider: **indirect costs** and **direct costs**. Indirect costs, also known as administrative costs or “overhead,” include costs that are incurred for common or joint program objectives. They cannot be identified readily and specifically with a particular sponsored project or activity. Direct costs are those that can be identified specifically with a particular sponsored project or activity, or with directly-produced services for clients. Grants that are dedicated for certain programs or activities require the reporting of monies spent directly on those programs or activities, and those spent on overhead. Therefore, it is wise to track carefully how much money each program requires to operate, as well as how much revenue it generates. It is a major challenge to assess how much of the indirect costs are associated with each program (Managementhelp 2004). Please refer to Chapter 3.3 for more information on indirect costs

An **audit** is a process for testing the accuracy and completeness of information presented in an organization's financial statements. This testing process enables an independent certified public accountant (CPA) to issue an opinion on how fairly the agency's financial statements represent its financial position, and whether they comply with generally accepted accounting principles (GAAP). GAAP is determined by the American Institute of Certified Public Accountants (AICPA). An organization's board members, staff, and their relatives cannot perform organization audits because their relationship with the organization compromises their independence. The auditor will request information from individuals and institutions to confirm bank balances, contribution amounts, conditions and restrictions, contractual obligations, and monies owed to and by an organization. The auditor will review physical assets, journals and ledgers, and board minutes to ensure that activities with significant financial implications are adequately disclosed in the financial statements. In addition, the auditor will select a sample of financial transactions to determine whether there is proper documentation and whether the transaction was posted correctly into the books.

The auditor will interview key personnel and read the procedures manual, if one exists, to determine whether the organization's internal accounting control system is adequate. The auditor usually spends several days at the organization's office, looking over records and checking for completeness. Auditors are not expected to guarantee that 100 percent of the transactions are recorded correctly. They are only required to express an

opinion as to whether the financial statements, taken as a whole, give a fair representation of the organization's financial picture.

Audits are not intended to discover embezzlements or other illegal acts. Therefore, a "clean" or unqualified opinion should not be interpreted as an assurance that such problems do not exist. An *unqualified opinion* includes wording such as, "In our opinion, the accompanying financial statements present fairly the financial position of ABC Agency at the fiscal year ending June 30, 19XX...in conformity with generally accepted accounting principles." A *qualified opinion* is issued when the accountant believes the financial statements are, in a limited way, not in accordance with generally accepted accounting principles. A qualified opinion might include wording such as, "In our opinion, except for the omission of...the accompanying financial statements present fairly..." Many auditors provide nonprofits with year-end financial management services that are not part of the audit (Alliance 2003).

Many states have specific reporting requirements for non-profit organizations. The federal government has specific reporting requirements for 501(c)(3) nonprofit corporations and other categories of nonprofit organizations, such as institutions of higher education. You should consult with your accountant and your audit firm to be sure you are complying with all applicable state and federal laws and regulations (1800net 2004).



Questions to Consider

Initially, is contacting a certified public accountant important?

Directors and managers may be able to complete the basic bookkeeping or financial activities. It may be wise, however, to get a CPA to assist in reviewing and developing a bookkeeping system, generating financial statements and information, and conducting basic financial analyses. It is always helpful to have a trained, external eye review finances at least on a quarterly basis.

Should the organization purchase accounting software?

Accounting software can be very useful, especially for automating the bookkeeping process and assisting with generating financial reports. Standardized or made to order accounting software is available, depending on the needs (and finances) of the organization.

What Is the Sarbanes-Oxley Act (SOX) and why should nonprofits care?

SOX, enacted in the wake of corporate scandals, sets new standards of accountability and board behavior. Although many of these standards apply only to publicly-traded corporations, nonprofits need to stay abreast of such legalities (Nonprofits 2004). Congressional committees have been holding hearings on nonprofit organizations and their regulation. There is particular concern about controls on executive compensation, and accounting regulations to prevent reoccurrence of the major nonprofit scandals of recent years. All nonprofit organizations should pay close attention to any new regulations at the federal level.

What are the implications of the “The Panel on the Nonprofit Sector” for Public Health Institutes?

There appears to be increasing government interest in nonprofit governance and financial accountability. The Independent Sector (<http://www.independentsector.org/>) recently convened a “Panel on the Nonprofit Sector” at the encouragement of the US Senate Finance Committee. The panel is dedicated to ensuring that charities and foundations remain a vital and responsive force in America and around the Globe (more info available at <http://www.independentsector.org/panel/main.htm>). The panel’s interim report (available at <http://www.nonprofitpanel.org/interim/PanelReport.pdf>) is divided into three sections: 1) Introduction, with background on the panel and dimensions of the nonprofit sector; 2) Principles to Guide Improving the Accountability and Governance of Charitable Organizations; and 3) Recommendations of the Panel on the Nonprofit Sector. The final report should be available in May, 2005. NNPHI encourages its members and emerging institutes to read this report. Some of its recommendations for specific rules and practices could end up in law.

Should the organization open a checking and/or a savings account?

In some cases, new PHIs may not have much money. It is a good idea, however, to start a checking account and a savings account, and to develop a relationship with a bank. Many banks offer a non-interest bearing checking accounts that have minimal or no fees. When a grant proposal is funded, it is important to have an account to receive the money. Depositing funds in a personal checking account is not a good idea.

Why should we have an audit?

There are many good reasons to have an audit.

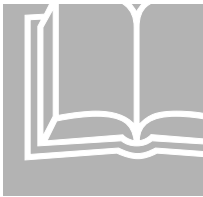
- An audit will ensure that financial records are in accordance with generally accepted accounting principles.
- If an organization is a 501(c)(3) nonprofit, an audit will help the organization retain federal nonprofit status. The bylaws of most 501(c)(3) corporations require an annual audit for this reason.
- An audit will reassure funders that their grants have been spent appropriately and reported properly.
- An audit may be a good planning and budgeting tool.

- An audit may be a good public relations tool for what it says about an organization's financial integrity.
- An organization's granting agency may require an audit, or may use the information in the audited financial statements when they evaluate the organization applying for funds.
- The lack of an audit implies administrative laxity and unreliability.

What is included in an audit?

The report usually includes the following:

- A cover letter, signed by the auditor; stating that the financial statements have been audited under “auditing standards,” the auditor’s responsibilities, and general comments relating to internal controls and accounting procedures.
- The financial statements, including the statement of financial position (balance sheet), statement of financial activity (income statement), and statement of cash flows. Health and social service organizations also have a statement of functional expenses. Many audits show comparative information between fiscal years.
- Notes to the financial statements, as required by GAAP, which might include information about functional expenses, a depreciation schedule, further information about contributions, volunteer services, and other significant information not obvious in the financial statements.
- In addition to the materials included in the audit report, the auditor often prepares what is called a management letter, or report to the board of directors. This report cites areas in the organization's internal accounting control system where the auditor notes opportunities for enhancement (Alliance 2003).



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Relevant Web Sites

- <http://www.nonprofits.org/npofaq/keywords/2a.html>
- <http://www.nonprofits.org/npofaq/keywords/2b.html>
- The Alliance. Financial Management.
<http://www.allianceonline.org/faqs.html>
- National Center for Charitable Statistics. Unified Chart of Accounts for Nonprofits. <http://nccs.urban.org/ucoa/nccs-ucoa.htm>
This site makes the Unified Chart of Accounts (UCOA) for nonprofit organizations freely available to any nonprofit, accountant or consultant - it is US-based but very useful when you are setting up or changing your accounting system.
- Online Business Women's Center.
http://www.onlinewbc.gov/docs/finance/fs_balsheet1.html
- Berger, Irwin, CPA. Audit Guide for Audit Committees of Small Nonprofit Organizations. Virginia Society of Certified Public Accountants Public Service Committee http://www.vscpa.com/PR/Non-Profit/audit_guide.htm
- Nonprofit Audit Preparation Checklist. Nonprofit Financial Center.
http://www.nfconline.org/main/info/guides_audit_prep.htm
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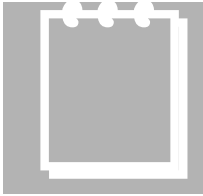
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Insurance

By Amy Cavallino, MPA

Any organization, whether for-profit or nonprofit, needs to take responsibility for its business property, contents, and actions. Purchasing insurance coverage is very important for nonprofits because it is difficult to recoup losses if crime or other damage occurs. In addition, one lawsuit could cripple a nonprofit organization, since most nonprofits do not have the financial or personnel resources to defend against a legal claim. With appropriate insurance coverage in place, a nonprofit organization takes a proactive stand in protecting against the unexpected.

Types of Insurance

General Liability. A general liability package policy protects companies in the event that a client is injured on the business premises, or an employee injures someone or damages property at a client's location. Landlords often require that companies carry a certain amount of business premises liability insurance. In most instances, the coverage limit is \$1 to \$2 million. Often, General Liability insurance is offered in a package with Property coverage to protect against accidents on premises or at other locations where business might be conducted.

There are also business owner's policies (BOP), whereby property coverage and general liability coverage are combined. This may allow public health institutes to obtain adequate coverage at rates lower than would be possible with two separate policies. If the BOP comes with limits that are lower than a public health institute's potential liabilities, an organization may consider umbrella liability insurance, which provides coverage for claims that exceed the amount of coverage in the general liability policy.

Each public health institute and policy is unique. There are many details related to limitations and exclusions, as well as applicable state laws and regulations. It is a good idea to take the time to sit down with an agent and have them explain the details

Crime Policies. Crime protection insurance is needed in addition to property insurance because crime-related losses typically are not covered by most property insurance policies. Liabilities covered by crime insurance include money and securities taken by robbery, theft, disappearance, and destruction; and losses caused by the dishonest acts of

employees. Crime policies are pretty straightforward. The premium will depend on the amount and value of the contents of the public health institute. Insurers can help assess this value.

On average, a small- to mid-sized public health institute can usually purchase \$100,000 in crime insurance coverage for around \$1,000 in yearly premiums.

Director and Officer Liability. This coverage protects directors and officers of the organization against charges of negligence in the performance of their duties. As representatives of a public health institute, directors and officers can be held personally responsible for their individual actions as leaders of the organization.

Policy terms typically range from one to three years. Maximum aggregate liability coverage of \$1 million is common for small- to mid-size organizations.

When professional liability insurance is being negotiated, it is important to completely disclose the risk factors inherent in the programs and projects of the PHI. For example, any project that involves the provision or supervision of direct, public healthcare services carries substantial liability. If that liability is not disclosed when the policy is being negotiated, the PHI may be without insurance coverage in the event of an accident or error.

Workers' Compensation Insurance. Workers' compensation insurance provides medical and disability coverage for employees in the event of work-related injuries or illnesses. A compensation policy protects the public health institute in the event that an employee files suit claiming that negligence on the part of the Public Health Institute was the cause of the work related illness or injury. Most states require businesses to carry workers' compensation insurance.

While legal requirements vary, most states require workers' compensation insurance for all employees. Premiums are based on payroll and the type of work employees perform. For example, an employee stationed in an office doing clerical work may be insured for less cost than an employee who travels to serve clients.



Questions to Consider

As a new and small-scale nonprofit, is there anyway to get discounted rates for insurance coverage?

Some states have umbrella nonprofit associations that offer discounted rates upon membership. For example, in Louisiana there is the Louisiana Association of Nonprofit

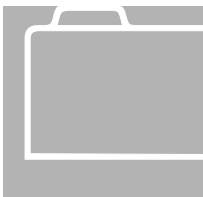
Organizations (LANO). LANO has member benefits that include discounted directors and officers insurance, health insurance, and retirement benefits plans. They are able to pool all of their members into one large group to obtain better rates. It is useful to investigate state nonprofit associations to see what insurance advantages they offer.

Are there any other types of business insurance or licenses that are necessary?

As a PHI grows, it is a good idea annually to review insurance coverage with an attorney specializing in nonprofit law, or with a trusted independent insurance agent. The business insurance coverage needed will change as the size of the company increases and as the company takes on different categories of business.

A state operating license is usually required for nonprofit corporations. An application needs to be filed with the secretary of state or appropriate state department. The fee is usually minimal, ranging from \$5 to \$20 annually for registering as a domestic corporation.

An occupational license may be required by the city or cities in which an organization has offices. Nonprofits are not required to pay occupational license tax because they do not collect revenues; however, an organization is required to obtain an occupational license certificate and publicly display it. It is important to note that nonprofits do collect revenues, or they could not operate. What is different about nonprofits is that they do not make a net profit; more precisely, profits do not exceed a minimal level—beyond which excess profits are taxable.



Case Examples

Louisiana PHI

General Liability Insurance- 1 year policy

General Aggregate Limit	\$	2,000,000
Products-Completed Aggregate Limit	\$	2,000,000
Personal and Advertising Injury Limit	\$	1,000,000
Each Occurrence Limit	\$	1,000,000
Damages to Premises Rented to You	\$	300,000
Medical Payments Limit (any 1 person)	\$	5,000

Annual Renewal cost averaging \$750-\$950 per year.



Resources

Relevant Web Sites

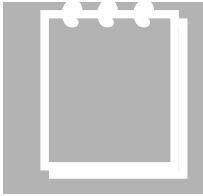
<http://www.nonprofits.org/npofaq/keywords/2k.html>

<http://www.nonprofitrisk.org/>

<http://www.mapnp.org/library/insurnce/insurnce.htm>

<http://www.ncna.org/>

http://www.onlinewbc.gov/docs/finance/insure_needs.html



Human Resources

By Marisha DiCarlo

Human resources are “[t]he people that staff and operate an organization...as contrasted with the financial and material resources of an organization,” as well as “[t]he organizational function that deals with the people...” (Tracey, W. 1997). Human resources (HR) then, consist not only of the human labor of a workforce, but also the physical and mental human abilities that produce the goods and services of a business.

The responsibilities of a human resources practitioner often include recruiting and retaining employees; identifying and providing training to enhance employee skills; providing orientation to new employees; developing compensation plans and incentive plans; and conducting reviews for employees. All of these activities must be conducted in compliance with local, state, and federal labor laws. Practitioners are involved in policy development and a multitude of other responsibilities related to the management of an organization’s most important resource: the team of people that staff and operate the organization.

New PHIs need all of the HR services listed above, but frequently do not have the infrastructure or funding needed to support these services. Some HR services may become the responsibility of program or project managers (particularly recruitment, orientation, and employee reviews). Other HR services related to compensation, payroll, and legal compliance may become the responsibility of the finance staff; policy development duties may be deferred to the CEO. Simply handling and archiving all employee records requires knowledgeable staff that a new PHI may not have.

One approach to acquiring needed HR services and expertise is to partner with an existing nonprofit organization to hire an HR professional. Another approach is to write a management services contract with an existing nonprofit organization willing to provide HR and financial services.

If a new PHI decides to “go it alone” and handle HR functions internally, the minimum necessary resources include: (1) a contract with an experienced HR professional who is willing to advise program staff on record keeping, assist with recruitment and compensation matters, help develop an employee manual for policies and procedures, set up necessary forms and record systems, and advise the CEO on policy; (2) an attorney experienced in labor law so that the employee manual and the HR systems of the PHI

receive legal review; and (3) an attorney experienced in labor case law and courtroom practice who is available to answer questions from PHI staff, and who will handle the labor lawsuits that are inevitable as the PHI grows.

Once a PHI has more than 20 employees, it is advisable to devote at least a part of the time of a full-time staff person to HR matters. This individual (an HR Assistant) keeps HR and payroll records, assists program managers with recruitment (e.g., placing ads, setting up interviews, and sending letters), and interacts with the HR professional and labor attorneys.

At the 50-employee level, the PHI becomes subject to a number of federal laws, most importantly the Family and Medical Leave Act (FMLA) of 1993. FMLA compliance requires training an HR staff member in the provisions of the law, how to determine FMLA eligibility, and how to apply the law consistently. FMLA compliance may also require some financial systems changes, since a leave pool is almost a necessity for employee utilization of FMLA. When the 100-employee level is reached, the PHI needs a full-time, credentialed HR professional with appropriate staff assistance. Having more employees means greater capacity for the PHI, but also means more variation, complexity, and problems related to HR matters.



Questions to Consider

What is the process of recruitment?

An essential step in creating a cohesive team is to lay the groundwork for hiring qualified, goal-oriented individuals who share in the mission of the organization. The first step is to make sure that the job description advertised is crafted with the assistance of program or organization leaders, and that it clearly states the skills and education that the position requires. Once there is a finalized job description that states the mission of the organization or program, the application requirements, and a description of the duties associated with the position, careful consideration should be given to where the job should be posted. An announcement could be posted with a local newspaper, a national publication, a university career center, or a Web site. Different types of postings will generate different types of responses.

Résumés should be reviewed objectively, based on the criteria posted in the job description, and usually by more than one person familiar with the program. Interviewed applicants should be asked questions that, when answered, demonstrate position-relevant expertise, showcase personality, and provide insight as to how well an applicant might fit within the organization as a whole. It is very important that more than one person

participate in the interview process, so that if questions arise about the legitimacy of one candidate's selection over another, there is a fair system in place to clearly demonstrate the reason(s) for the hiring decision.

Once a candidate is selected, but before they are offered the position, the applicant's professional references should be checked. Since 80 percent of all resumes are falsified in some way, even candidates for professional positions should be checked with their previous supervisors. In addition, most businesses use a national background checking service to rule out a criminal background and verify degrees. Once a candidate's references have been cleared, it is appropriate to offer the position at a negotiated salary and start date. Finalized information regarding employment details should be included in a formal offer letter that the candidate can show to their current employer.

What interview questions cannot be asked?

Remember that during an interview, a potential employer cannot ask any questions that could violate the applicant's privacy or civil rights. A basic rule of thumb is to consider an equal opportunity employer policy. Questions that may seem friendly or inquisitive, based on the individual applicant, may actually be offensive. Basic examples include: expressing interest in the origin of the applicant's last name, asking how the applicant likes being married, or asking if the applicant is available to work on Sunday mornings. These are not questions that can be asked in the interview. They are considered discriminatory. For more information, reference the U.S. Equal Employment Opportunity Commission at <http://www.eeoc.gov/>.

What are important records to keep?

The first day that a new employee starts, it is important to make sure that he or she receives an orientation to the organization and completes the paperwork necessary make sure that he or she is legally employed by the organization, and can legally work in the United States. Some forms and requirements vary from state to state, so it is important to contact the local department of labor to obtain a complete listing of all posters that need to be hung in the workspace, and forms that need to be completed.

All new employees should fill out a W-4 form to report withholdings to the federal government (<http://www.irs.gov>) and an I-9 form to show proof of eligibility to work in the United States (<http://uscis.gov/graphics/formsfee/forms/i-9.htm>). The I-9 forms for employees should be kept separate from personnel files for easy access in case of an audit. It is also important that all medical records are kept in separate files, and in a separate drawer or other location away from employees' personnel records. This is done so that it is clear that employees' medical conditions do not affect their employment status.

Should our institute have a personnel policy manual?

A personnel policy manual is a document that sets forth organizational policies and practices. A manual can be a valuable employee communications tool, and can help orient employees and maintain consistent policies across programs and supervisors. Clearly communicated, consistent policies can help an organization avoid complaints of unlawful discrimination, and can support a workplace with less disciplinary action.

It is important that the manual is reviewed by a labor attorney, and that it includes disclaimers that protect the employer from stating something that could be misinterpreted in a court of law. Maurice Baskin, in the report *Is it Time to Revise Your Employee Handbook?*, advises organizations to include the following disclaimers prominently in their handbook or policy manual: (Baskin)

- The handbook does not create a contract, expressed or implied.
- The handbook is not all inclusive, and is only a set of guidelines.
- The handbook does not alter the "at-will" relationship between employer and employee (unless the employer wants to change this traditional relationship).
- The handbook does not guarantee employment for any definite period of time.
- The handbook applies to the following categories of employees: [fill in].
- The handbook supersedes any previous handbook or unwritten policies.
- The handbook can only be changed in writing, by the president of the organization.
- The handbook can be changed by the organization unilaterally, at any time.

What factors improve employee retention?

A major focus for newly formed organizations is the search for qualified, capable individuals to staff a program or programs. Once an organization moves beyond that first step, there are many factors that make a healthy and motivated workplace, with employees that are invested in the organizational mission over the long term. Some of these factors are incentives that show employees that they are valued and appreciated; others are events, trainings, or feedback forums that boost employee morale and workplace commitment. Some factors that contribute to employee retention are:

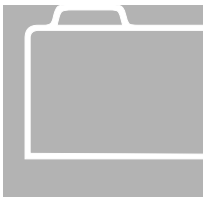
- Employee benefits such as health insurance, life insurance, dental and vision insurance, retirement plans, and disability insurance.
- Employee perks such as paid parking, bonuses, wellness programs, and educational reimbursement.
- Employee events, such as holiday gatherings and scheduled organizational events. These don't need to be costly events—they can be as simple as hosting a brown-bag "lunch and learn" session where employees gather to discuss current events.
- Regular evaluations to monitor the progress of the employee and to gauge employee satisfaction.
- Continued workplace training and employee training on teamwork, diversity, communication, management-skills building, and other topics.
- An employee feedback forum, such as a suggestion box or Web page.
- Regular staff meetings that include a segment on shared successes and updates.

How should an employee be separated from the company?

There are two types of separation: voluntary and involuntary. Voluntary separation is usually the easier of the two, simply because there is less possibility that the separating employee harbors ill feelings toward the former employer. Even so, there is a process that must take place in order to ensure that the transition is a legal and smooth one.

And even with the best of intentions, at times an employee does not work out and must be let go or asked to resign. This is what is referred to as involuntary separation or termination. It is imperative that before a decision is made to let an employee go, the proper documentation of performance issues and any prior disciplinary action taken is in place. This assures that the transition is as smooth as possible under the circumstances.

Regardless of the type of termination, emotions run high when an employee is about to depart. In order to facilitate the separation for the departing employee, there must be a process in place. A suggestion is to have a checklist of items that must be completed leading up to, and following, the date of termination. It is also a common practice to conduct an exit interview whenever possible, and to obtain a signed release form that authorizes the organization to share information with future potential employers.



Case Examples

LOUISIANA [*Sample Handbook Introduction Excerpt*]:

These policies have been formally adopted by the Board of Directors and will be reviewed not less often than every three years to ensure that they continue to reflect current thinking in the field of personnel, and that they are consistent with local and national trends, and legal requirements.

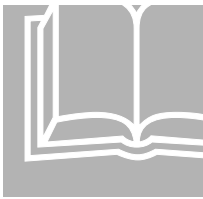
These Personnel Policies serve as a guideline for informational purposes for benefits, policies, and procedures that Louisiana Public Health Institute (“Employer” or “LPHI”) intends to utilize.

These policies should not be construed as creating a contract between LPHI and any of the applicable employees. The interpretation and operation of the benefits noted herein are within the sole discretion of the LPHI, or its designees. Benefits as outlined in this document may be added to, expanded, reduced, deleted or otherwise modified by LPHI and any such modifications in the policies shall be solely within the discretion of LPHI.

It is also the intent of LPHI to provide reasonable prior notice of such changes or modifications, if any, to the employees affected thereby.

The LPHI reserves and retains, solely and exclusively, all rights to manage and operate its affairs and neither the constitutional nor statutory rights, duties and obligations of LPHI shall be in any way whatsoever abridged by the terms of these policies. (Located in NNPHI file Library).

MAINE The personnel policies for the Maine Center for Public Health (MCPH) were adapted from those of a larger nonprofit that does similar work. These have had to be extensively revised to reflect the needs of a smaller organization and changing human resources law. The MCPH has extensively researched salary and benefit issues for its staff. The MCPH director of administration handles HR, and fiscal and general administrative issues; this can be a challenging role.



Resources

References Cited in This Chapter

Baskin, M., *Is it Time to Revise Your Employee Handbook?*

Tracey, W. (1997), *The Human Resources Glossary: The Complete Desk Reference for HR Executives, Managers, and Practitioners.*

NNPHI File Library

The following documents are available for download from the NNPHI File Library:

Louisiana Public Health Institute

LPHI Personnel Policy Manual 2004

LPHI Orientation Checklist

Michigan Public Health Institute

Building and Technology Related Policies

05-01 MPHI Building Security

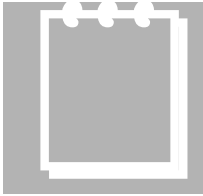
05-02 MPHI Network Acceptable Use NEW
05-03 MPHI Anti-piracy form
05-03 MPHI Software Anti-Piracy Policy
05-04 MPHI Emergency Plan
05-05 MPHI Office Equip. Furniture Inventory
05-06 MPHI Equipment Disposal
10-01 Use of MPHI Conference Rooms
MPHI List of Recommended Software from OTIS
MPHI Spring cleaning-archive
MPHI Telephone Calling Tree
Y2K Emergency Preparedness Plan

Personnel Policies

02-02 Hiring MPHI Personnel
02-03 MPHI Payroll Process
02-04 MPHI Scientific Misconduct
02-05 MPHI Confidentiality.doc
02-06 MPHI supplemental employment form.doc
02-06 MPHI Supplemental Employment.doc
02-07 MPHI Sexual Harrassmentform.doc
02-08 MPHI Business Use of Phones NEW.doc
02-08 MPHI Personal Long Distance form.doc
02-09 MPHI Programmatic Responsibilities.doc
02-10 MPHI Employee Work Related Injury.doc
02-10 MPHI Performance Issues Form.doc
02-11 MPHI Legislative Activities.doc
02-12 MPHI Leased Vehicles.doc
02-13 MPHI Employee Compensation.doc
02-14 MPHI Performance Review Policy.doc
02-15 MPHI Customer Service Policy.doc
02-16 MPHI Bonus Salary Increase.doc
02-17 MPHI Telecommuting.doc
02-18 MPHI Vacation Leave Accrual.doc
02-19 MPHI Sick Leave Accrual.doc
02-20 MPHI Personal Leave Accrual.doc
02-21 MPHI Hazardous Duty Pay.doc
02-22 MPHI Safety Belt Use.doc

Relevant Web Sites

<http://www.shrm.org/>
<http://www.bls.gov/oco/ocos021.htm>
<http://www.human-resources.org/>
<http://www.eeoc.gov/>



Quality Assurance

By G. Elaine Beane, Ph.D.

Quality assurance (QA) means making sure that work is done well. Assuring the quality of one's work has always been a concern for professionals, irrespective of their field. A profession is defined as a group of workers who control their own work (Freidson, 1970). Professionals are motivated to maintain and elevate the reputation of their field. They control entry into that field and collaborate with their peers to set standards, establish certifications, and monitor credentialing. Quality control is maintained through professional integrity and responsibility, as well as collegial review, standards, and licensure. The industrial versions of quality assurance have focused first on identification of manufacturing mistakes, and second on the development of systems to prevent errors and measure overall product quality against standards. The industrial motivation for quality is the competitive pressure of the marketplace. Beginning in the 1980s, American corporations integrated quality concerns into management processes. Continuous quality improvement (CQI) and total quality management (TQM) are seen as competitive strategies in complex manufacturing enterprises and in health care (Palmer and Adams, 1993). There is a huge literature on QA; this chapter reviews only the aspects of QA that are relevant to the work of PHIs. Selected resources are listed at the end of the section.

Public health institutes should apply elements of both the professional and industrial versions of QA in the work that they perform and in the products that they produce, while maintaining timely product delivery and client satisfaction.



Questions to Consider

When do I have to start thinking about quality assurance?

QA starts with the assessment of opportunities for proposals or project initiation. It is difficult to maintain high-quality work if the PHI frequently seeks or accepts projects that are: (1) inappropriate due to subject or size, (2) under-funded, or (3) high-risk. This does

not mean that such projects should be automatically rejected; but, rather, that they should be carefully evaluated, and the costs and liabilities understood by all parties. Questions to ask include:

- Does this opportunity fit within the organization's vision and mission? [This is a good reason to keep the mission statement fairly broad.]
- Does the project require expertise that the organization already has, and products or outcomes that it already produces?
- Is the project substantially larger or smaller than any project that the organization has already done? Will the organization be perceived as a viable or appropriate recipient of the contract or grant?
- Does the project require new skills? Can organization staff quickly learn these new skills, or can the organization hire the necessary expertise at reasonable cost, or can the organization partner with those that have the needed expertise?
- Is the project doable within our current infrastructure or will it require the organization to expand infrastructure? Will the project pay for any necessary infrastructure expansion? Can the organization afford to maintain the expanded infrastructure when the project ends?
- Does the client impose such demanding compliance requirements (e.g., for accounting, reporting, and regulatory compliance) that the organization will need additional staff or systems? [This question is especially important for all federal and state project opportunities.]
- Will the project be funded at a level that permits the organization to do good work and still break even? Can the organization afford to lose money on this project; if so, how much?
- Is the time allocated for project completion sufficient to allow good work? If not, will the client authorize time extensions?
- What is the risk that the project will have unexpected needs not funded by the client? [This is known as a contingency factor, and should be built into budgets whenever feasible.]
- What is the liability inherent in the project, and will the client pay for increased liability insurance?

Once a project opportunity has been selected, quality assurance continues through the following stages:

- Proposal or bid preparation and timely submission. Measures: proposal topic is appropriate; text is well-written; text, budget, budget justification, and ancillary materials fulfill client guidance or RFP specifications; appropriately credentialed staff and adequate staff time are included; well-constructed work plan, timeline, budget and budget justification support the necessary work and build PHI infrastructure; letters of commitment are included from partners; all required forms and assurances are properly filled out and signed.
- Contract or grant negotiation. Measures: work requirements, liability, funding, and time are kept in balance (changes in any of these elements are accompanied by changes in all other elements); work plans, timelines, deliverables, and budgets are agreed to; contract or grant terms and conditions are explicit and understood.

- Project start-up. Measures: staff, space, equipment, and administrative systems are in place at the agreed upon time; project work plans, timelines, budgets, and other required documentation for IRB and HIPAA review are completed, submitted, and reviewed; appropriate entries are made in accounting, IRB, HIPAA, and QA systems.
- Project implementation. Measures: timely work is performed; high-quality deliverables and outcomes are produced; expenses are appropriate for the time period and the work plan; QA reports are prepared quarterly [at minimum], reviewed internally, and forwarded to the client; expense reports are prepared by the finance department and invoices sent to client; problems and needed changes are identified through internal review; changes are implemented and results assessed; final products and outcomes are reviewed internally and forwarded to client; final invoice is reviewed internally and sent to client.
- Project final review and archiving. Measures: project files, products, and financial records (paper and electronic versions) are organized, purged of duplication, and archived for future reference; the conduct, products, and costs of the project are internally reviewed for lessons that may be applied to similar projects in the future; project lessons are institutionalized through policies and procedures, where applicable.

How can a new PHI afford a quality assurance system?

If a new PHI does not pay attention to quality assurance, it is not likely to stay in business. Executive directors, program directors, and project coordinators need to add QA thinking and actions to their job descriptions and everyday work practices. Most of the thinking and actions required for quality assurance are expected of professionals in any case. Quality assurance systems make these professional behaviors overt, expected, standardized, and a matter of record.

Any systematized activity costs time and energy, but initial costs can be kept low, with additional system elements added as the PHI grows. Industrial QA approaches can be studied to improve the efficiency and effectiveness of QA activity as it becomes systematized. This can help to identify the work process points at which information is most critical and most readily collected. A QA system will work best and cost least when it is integrated with other PHI reporting systems—such as legal, financial, client-required, IRB, and HIPAA systems—so that staff collect and report information in an efficient way.

What should I put into a quality assurance system?

Quality assurance systems for PHIs include support for:

- **Compliance** with funder terms and conditions, federal and state laws and regulations, PHI policies and procedures, and good business practices.
- **Tracking and evaluation** of project selection, proposals, work plans and timelines, budgets, staffing, IRB and HIPAA review, implementation, products, and completed outcomes.

- **Assessment** of client satisfaction with the business relationship, the products, and the staff.
- **Remediation** of problems to maintain client satisfaction.
- **Minimizing** the recurrence of problems and **maximizing** quality improvement through policies and procedures, training, and managing culture change.

Compliance—with federal, state, and local government requirements, as well as the requirements of PHI funders and clients—is necessary for the existence and continued operation of a PHI. Compliance is the minimum level of QA. To be in compliance, a PHI must know and obey applicable laws and regulations, perform with due diligence, and fulfill the terms and conditions of all grants and contracts. As a PHI grows, internal policies and procedures will also require compliance.

A start-up PHI may arrange a management agreement with an existing nonprofit or a host institution (such as a university) to provide full or partial management services (e.g., for human resources, accounting, payroll and benefits, federal and state financial and tax reports, grants and contracts execution, reporting, invoicing, and IRB and HIPAA review and reporting). Compliance responsibilities should be clearly spelled out in management contracts, but the PHI receiving management services must still pay attention to compliance requirements and make sure that they are fulfilled.

A start-up PHI without a management agreement or a host institution must be very diligent in securing nonprofit- and labor-related legal counsel, credentialed nonprofit financial services, and appropriate expertise in other compliance areas. Many states have nonprofit associations that provide assistance to start-up non-profit organizations so that compliance obligations are identified and properly met.

Tracking and evaluation of activities and products at all stages of project generation (pre-award) and implementation (post-award) constitutes the next level of QA, and can be integrated with compliance activities and reports. See the list of QA measures (above) for the kinds of tracking and evaluation information needed at each project stage.

Even a one-person PHI needs to have a work plan or timeline spreadsheet that lists pre-award and post-award project “demographics” (e.g., project name, account number, client contacts, start and end dates, and budget amounts), monthly tasks for each project, problems and solutions, reminders about reporting and invoicing due dates, and a list of product files and lessons learned. One of the simplest approaches to tracking and assessing post-award project activities is a system of quarterly progress reports. Clients may require project progress and financial reports on a monthly, quarterly, semi-annual, or annual basis; these reports must be generated in the format specified by the client and delivered on time. To the extent possible, client reports may be substituted for QA reports. For internal QA purposes, however, quarterly progress reports are a good compromise between timely problem solving and burdensome reporting. Quarterly progress reports should be one to two pages long, and should provide information on: the current status of project implementation compared to the expected status, as recorded in the work plan or timeline; any problems encountered and solutions implemented; any

unresolved problems, particularly if they involve the client; the current status of project expenditures compared to the budget; and an assessment of project completion relative to the timeline and budget.

Project coordinators generate quarterly reports and review them with the program director, who in turn reviews them with the executive director. At some point in this sequence, the reports are sent to the client. In a one-person PHI, quarterly reports are generated to review project status in a structured way and to inform clients, and then the reports are filed to provide a record of compliance and a basis for the annual report.

Assessment of client satisfaction should be done: (1) continuously through client meetings, reports, and informal communication; and (2) periodically through surveys of client satisfaction with the business relationship, the products received, and the staff.

Continuous assessment of client satisfaction requires the establishment and maintenance of frequent communications (to the extent permitted by the client). A PHI wants to produce good work and a client wants to receive good work products. Problems identified by the PHI or the client should be the subject of collaborative problem solving; both the problem and the solution should be noted in the quarterly progress report.

Periodically—annually, at a minimum—a satisfaction survey should be completed by all clients. Clients may be asked to respond on a project-by-project basis, or may provide an overarching assessment of all current projects placed with the PHI. Measures include: the timeliness and perceived quality of the work performed and the work products generated; satisfaction with all categories of interaction with the PHI (e.g., contracts, financial reports and invoicing, staff expertise and responsiveness, administrative responsiveness, etc.); and willingness to continue doing business with the PHI or recommend the PHI to others. Analysis of the survey results may be used for quality improvement training with staff, remediation of problems, strategic planning to improve work systems, development of policies and procedures, and verification of due diligence.

Remediation of problems to maintain client satisfaction may be performed on a case-by-case basis, or through a systems approach. A project that has repeated problems that are not solved through communication between the client and the PHI project staff may be referred to the program director or executive director, since these individuals are ultimately responsible to the client. After reviewing project status and the perceived issues, PHI leadership may identify additional resources to add to the project, change project staffing, increase project monitoring, or attempt to negotiate additional funding or time for project completion. This type of remediation must be done carefully, and must support both the client and the PHI staff involved. In rare instances, PHI leadership may choose to negotiate with a client for project closure; in such cases, a percentage of the funds budgeted for the project is returned. This may result in a net loss for the PHI, so it is feasible only if the PHI has reserve funds to make up the difference. Such action may also reduce the PHI's client base, and should be taken only if the client is small or not valued.

A systems approach to a category of repetitive problems may be driven by client complaints or internal identification of poorly functioning systems. Internal systems change is often based on lessons learned (both positive and negative), and can be as simple as implementation a new policy or procedure, or as complex as reorganization of the PHI. Major changes in this category may require board approval.

Minimizing problem recurrence and **maximizing** quality improvement are management goals that require the attention of the entire PHI staff. All staff members should look for work process improvements, and should perform work in ways that minimize problems and maximize quality. This requires open, positive communication between PHI staff and leadership. This type of communication is easier to maintain when the PHI is small. As the PHI grows, corporate culture; management systems; staff training; incentives and disincentives; and attention to effective, efficient information systems and infrastructure are necessary to keep all staff engaged in the quality assurance enterprise. Ideally, clients become partners with the PHI in quality improvement too.



Case Examples

MICHIGAN During its start-up period, Michigan Public Health Institute placed responsibility for QA with program directors who reported directly to the executive director. Program directors who came to MPHI with an existing client and project funding did quite well with this approach, since they already knew the client and the types of work desired. Program directors who were recruited to manage projects in particular subject areas had more difficulty, since they had to build client relationships, assemble an appropriate staff, and learn the clients' preferences related to both work processes and work outcomes. Some projects required remediation, and negotiated project closure occurred in two cases. As MPHI grew, QA systems came into existence as needs were recognized. Quarterly progress reports were instituted, policies and procedures were developed and implemented, and staff members were trained. Eventually, a director of programs position was created, and this director was given responsibility for QA across all programs. Client satisfaction surveys were conducted annually. Since the MPHI wanted to seek and receive direct federal funding, an IRB was created; this group eventually became the privacy panel for HIPAA compliance as well. At present, program directors retain primary responsibility for QA, although the grants and contracts administrator is responsible for some pre-award and post-award monitoring and information gathering. A "project status form" includes some of the information needed for grants and contracts, and all of the information needed for preliminary IRB and HIPAA review. The MPHI corporate culture emphasizes professionalism and individual responsibility for quality. Incentives and disincentives are tied to QA-related activities and to compliance.

MAINE The Maine Center for Public Health (MCPH) does not maintain a formal quality assurance program. All MCPH programs are regularly evaluated by the funder. In addition, MCPH staff performance is regularly reviewed. Training programs also contain an evaluation component and we also sometimes send out surveys and questionnaires to elicit feedback on our products and communication vehicles.



Resources

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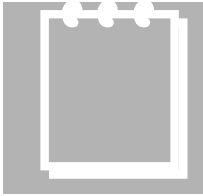
Relevant Web Sites

<http://www.ahrq.gov>

Books and Journal Articles

Putting Research to Work in Quality Improvement and Quality Assurance, Summary Report, AHCPR Publication Number 93-0034.

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Strategic Communications

By Scott Stafford, MPH

Strategic communications for public health institutes occur in two ways: direct marketing of products or services, and indirect marketing of the organization, its programs, and its people. Indirect marketing is alternately known as image building, friend raising, membership development, or public relations. Strategic communications begins with the identification of a product, a market, and a strategy. If the PHI is a 501(c)3 and receives federal funding, it is important to become familiar with the regulations outlined in OMB Circular A-122 (see Chapter 4.7 as well).

First, it is important to understand some of the basic principles that underlie the foundation of strategic communications. Effective strategic communication informs people about an organization's services so that they have a complete understanding of its mission and goals. Without this core understanding, effective communications with funders and community partners is difficult. The first step in creating a strategic communications strategy is to have a solid mission statement. The second step is to make sure major partners are in support of the intended strategic communications campaign. Thirdly, an internal audit should be performed to ascertain if there are appropriate resources available to carry out the mission statement. Specific areas that need to be reviewed include:

- Organizational culture and structure.
- Program objectives.
- Management objectives.
- Human resources.
- Allowable financial resources.
- Physical and technological infrastructure.

If there are appropriate resources, a communications strategy may be developed. Communications primarily focus on the audience and what will be done to engage audience members or to cause them to change, participate, and become involved in achieving program objectives. This process may seem similar to developing program objectives, but it is seen through a different lens. Important questions to ask when formulating a strategic communications strategy include:

- Who is the target audience?
- What is the nature or direction of the change sought among the target audience?
- What is the specific knowledge, attitude, or behavior to be achieved within the target audience?
- To what degree is change desired?
- When is the target date for the change to occur?
- What resources are available to adequately evaluate the change and its correlation to your communications strategy?

It is important to note that strategic communications plans need to be developed on multiple levels. A PHI needs to have an overarching strategic communications plan for the PHI itself. While each project requires a marketing plan to reach programmatic objectives, the PHI and services it can provide need to be marketed to the overall public health system. This will require effective public relations and organizational marketing. Without these plans in place, it is often difficult to leverage resources around programmatic activities and grow as an organization.

Please note NNPHI has begun a series of conference calls for communications staff of its member institutes. The summaries from these calls provide additional insight and guidance.



Questions to Consider

How do I know who my target audience is?

Also known as constituencies or stakeholders, target audiences are those people who can help you carry out your mission statement. A target audience includes the individuals, organizations, agencies, and businesses that can help an organization achieve programmatic goals.

A target audience is usually identified based on the demographics of individuals in a community (e.g., sex, age, income, race) or geography (e.g., region, state, city, neighborhood, rural or suburban area). Staff can collect data through the use of local media reviews, questionnaires, polling, interviews, and focus groups. These data sources allow program staff to analyze a potential target audiences based on shared activities, interests, and opinions. Results of this analysis can help an organization develop communication strategies that accurately and effectively reach the target audience.

What is my target message?

A strong message that helps an organization achieve its programmatic goals is one that clearly defines an issue, connects effectively with a target audience, and outlines an action plan. Messages need to be direct, to the point, and memorable—instilling a message in public memory is often called message branding. The most successful messages will resonate with the actual perspectives, experiences, and values of your target audience. These messages do not merely reflect the perceptions of program staff. Effective messages will also use language that is simple, symbolic, and emotional. Focus groups are an effective means of testing a message to determine its clarity and validity.

The next steps determine how to communicate a message, over time and to various target audiences. The first step is to decide on a strategy that speaks to an audience and addresses program objectives. The second step is to determine which vehicles are going to make each strategy happen. The third step is to overlap vehicles and strategies in order to make use of limited resources.

What communication vehicles are the best for my message?

Traditional and mass media communication vehicles are commonly used to communicate with target audiences. These vehicles include: newsletters, magazine ads, meetings, press briefings, phone calls, radio ads, billboards, flyers, television commercials, message boards, Web sites, and so on. The vehicle that works best depends on the message that the organization is trying to convey and the audience that it is trying to reach. It makes no sense to run a radio spot on a particular radio station if a target audience traditionally listens to a different one. This is why knowing a target audience as thoroughly as possible will save time and money.

Additionally, the best vehicles for your message must also be within your budget. Questions to consider include:

- Is this strategy and vehicle realistic for this organization, in view of its size and resources?
- Is there a way to reallocate resources to maximize message exposure?
- Is there time to raise money or in-kind contributions to help defray costs?

What do we need to make it happen?

There are four things that an organization needs to actualize a communications plan: (1) buy-in, (2) expertise, (3) time, and (4) money. Organizational buy-in is essential for an effective communications strategy because it is essential that all staff understand the connection between the communications plan and the organization's mission, goals, and

objectives. This allows staff to present a united front as the message extends beyond the organization and into the community. Staff buy-in includes the executive director, board of directors, senior management, program staff, administrative staff, and volunteers.

Different organizations, as well as the individual staff members within those organizations, have various levels of expertise. It is important to take the time to adequately identify the type and level of expertise available within an organization. An action plan can then be formulated to effectively and efficiently use that expertise. This should help to create a balanced strategic communications team.

After a communications strategy has been developed by well qualified staff, and the appropriate organizational buy-in has been garnered, the message can be sold. This takes money. When formulating budgets, it is essential to calculate expected media message expenditures. Radio, television, and print media campaigns are not usually inexpensive. If resources are scarce or unavailable, it will be necessary for to sell the message to outside sources in the hopes of receiving additional grant monies or gifts-in-kind from community partners.

What are public relations?

The term public relations includes community relations and means those activities dedicated to maintaining the image of the organization or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public (Whitehouse 2005). PHIs must develop effective public relations when attempting to leverage resources and engage the public health system.

Are there federal prohibitions on organizational marketing or public relations activities?

According to OMB Accounting Circular A-122, there are limitations on the type of organizational marketing and public relations activities that are permissible under federal grant guidelines.

The only allowable advertising costs are those which are solely for:

- The recruitment of personnel required for the performance by the organization of obligations arising under a sponsored award, when considered in conjunction with all other recruitment costs.
- The procurement of goods and services for the performance of a sponsored award.
- The disposal of scrap or surplus materials acquired in the performance of a sponsored award except when organizations are reimbursed for disposal costs at a predetermined amount in accordance with OMB Circular A-110.
- Other specific purposes necessary to meet the requirements of the sponsored award.

The only allowable public relations costs are:

- Costs specifically required by sponsored awards.
- Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of sponsored awards (these costs are considered necessary as part of the outreach effort for the sponsored awards.
- Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of contract/grant awards, financial matters, etc. (Whitehouse.gov 2005)



Case Examples

LOUISIANA (Direct Marketing of Products & Services) Step Together New Orleans (Steps), a partnership of Louisiana Public Health Institute and the City of New Orleans Health Department, is a community-based public health initiative created with support from Steps to a HealthierUS to help New Orleanians live longer, healthier lives by reducing obesity, diabetes and asthma in the city.

The Steps media workgroup began with a branding process wherein preliminary assessment data, collected by Zehnder Communications and Bright Moments public relations firm, identified African-American women, 18–44 years of age as the target audience with whom advertising messages regarding family health would have the greatest impact. Focus groups were held with members of the proposed target audience. Data obtained from these focus groups was used to develop the messages and design the creative executions for the television, radio and transit advertisements. The primary messages of the media campaign encourage individuals to eat more fruits and vegetables, increase physical activity, and eat less snack food. Phase one of the media campaign focuses on just the first two messages and avoids the high media costs and traffic of election and holiday seasons by running its messages from January–September. Phase two will expand to include the third and more difficult message once trust is built with the Steps brand.

The media workgroup created the Steps Web site with a look and feel consistent with the campaign it supports, while expanding on the simple messages by providing realistic and informed ways to live healthfully. The media campaign will also be supported through

grass roots level participation at special events and through media partnerships that leverage greater exposure of Steps core messages. The development of a booth display, informational brochures and other collateral items round out the support to the many initiatives and activities of the other Steps workgroups.



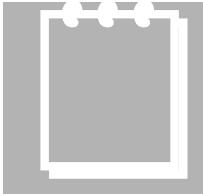
Resources

Relevant Web Sites

<http://www.nonprofits.org/npofaq/keywords/2n.html>
<http://www.whitehouse.gov/omb/circulars/a122/a122.html>
<http://www.mapnp.org/library/mrktng/mrktng.htm>
<http://www.turningpointprogram.org/pages/10tips.html>

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Advocacy and Lobbying

By NNPHI Staff

Lobbying is a particular kind of advocacy. The word is used in a strict legal sense to refer to activities in support of, or opposition to, legislation (and sometimes administrative action). These activities are regulated by one or more federal, state, or local laws. Advocacy encompasses all other (unregulated) activities designed to influence public policy. Aggressive advocacy may not always be lobbying. IRS lobbying is lobbying as defined by the sections of the Internal Revenue Code that regulate lobbying by tax-exempt charitable organizations. The IRS defines lobbying as an attempt to influence federal, state, or local legislative action through certain kinds of communications. "Legislation" means action by Congress or state or local legislative bodies, or action by the public in a referendum, ballot initiative, constitutional amendment, or similar procedure. "Action" means the introduction, amendment, enactment, defeat, or repeal of tax bills, resolutions, or similar items. "Communications" means written or oral communications with legislative officials ("direct communications") or the public ("grass-roots communications").

Basic rules for advocacy and lobbying follow. Each of the elements underlined below is required. Take away one and the communication is not lobbying.

- Communications to legislative officials that refer to a specific piece of legislation and reflect a view on that legislation are lobbying.
- Communications to the general public that refer to a specific piece of legislation, reflect a view on it, and include a "call to action," e.g., encourage the recipient to take action with respect to the legislation.

Some PHIs may be interested in trying to shape public policy by participating in local or statewide political processes. There are legal rules governing how and when they can engage in these activities. PHIs do, however, have the legal right, protected by the First Amendment, to engage in lobbying activities. As long as the rules are followed, PHIs should feel comfortable undertaking efforts to improve community health by participating in the public policy-making process.

PHIs must have some source of funds to pay for their lobbying activities. Many PHIs are funded by external sources, including federal and state grants and contracts, and grants

from private foundations that contain restrictions on the use of the funds awarded for lobbying. As a consequence, funding constraints are often the primary limiting factor in lobbying activity by PHIs. Cost-reimbursement type grants and contracts awarded by federal agencies to public charities are subject to the cost principles in OMB Circular A-122. These cost principles include a prohibition on use of federal funds for lobbying. The definition of "lobbying" in A-122 is similar, but not identical to, the IRS definition. Although there may be variations from jurisdiction to jurisdiction, it is likely that most state contracts will contain a similar prohibition. Private foundations are forbidden by the IRS from engaging in lobbying. They generally pass this absolute restriction down to their grantees. Funding agencies usually do not prohibit grantees and contractors from engaging in advocacy, including aggressive advocacy, as long as it is consistent with the purposes of the award. Except in limited circumstances, they generally do not prohibit recipients and contractors from using other funds for lobbying.

The IRS rules on lobbying by charitable organizations do four things. First, they absolutely prohibit private foundations and public charities from engaging in political campaign activities. Second, as indicated previously, they prohibit private foundations from engaging in lobbying. Third, they allow public charities to lobby, but they put limits on the amount of lobbying that they can engage in (based on the size of the organization, as measured by its annual expenditures). Fourth, they require public charities to report lobbying expenditures to the IRS. Every PHI that is thinking about getting involved in advocacy or lobbying needs to know something about the IRS rules. The IRS rules are based on "objective" factors, not subjective intent. This means that actions will not be construed as lobbying simply because an organization has a political agenda or a fervent desire to see its public policy views enacted into law. Since judicial, executive, and administrative agencies are not "legislative" bodies, efforts to influence their action do not constitute lobbying under the IRS definition. For example, urging state or local health department officials to act on a matter of public concern, submitting comments on proposed regulations, or participating in a public interest lawsuit are not lobbying. The IRS rules contain exceptions for "nonpartisan analysis, study and research," "discussions of broad social and economic problems," and "technical advice or assistance." A great deal of policy-based aggressive advocacy is permitted by these exceptions.



Questions to Consider

What are some other lobbying regulations?

State regulation of lobbying. Many states have laws that govern lobbying directed toward the state legislature or local government. Unlike the IRS rules, these laws generally apply to all individuals and organizations, not just nonprofits. Typically, they require registration of lobbyists and organizations that employ or contract with them, and periodic reporting of either lobbying activities or expenditures. They usually do not limit the amount of lobbying an organization can undertake. Unfortunately, the definition of lobbying activities in state regulatory programs may be different from the IRS definition. A PHI that wishes to engage in lobbying at the state level will have to become familiar with two different, partially overlapping regulatory schemes.

Local lobbying regulations. Some local jurisdictions have ordinances that regulate lobbying. For example, in California, Los Angeles and San Francisco have lobbying rules that are similar but not identical to the state's rules.

Lobbying Disclosure Act of 1995. This is a federal registration and reporting law that applies to direct communications with federal legislators and their staff by all individuals and their employers, not just public charities.

Byrd Amendment. This is a federal statute that prohibits contractors and awardees from using federal funds to lobby members of Congress, their staff, and federal agency officials in connection with federal funding.

CDC guidance. PHIs should note that the guidance for some CDC funding opportunities includes certain prohibitions against lobbying activities.

Can an organization be both a neutral convener on some issues and a direct advocate on other issues?

These two roles are not mutually exclusive. One can be a neutral convener for some issues and can take a position on others. With issues for which there are other public advocacy organizations, a PHI does not need to “take up the slack.” A PHI should not, however, take a position on issues that would disable it from engaging in activities that are the core of its mission. A PHI should have a clear and defined idea of its role based upon corporate mission and values, and should work forward from there. And PHIs should only promote bills based on solid science—credibility is at stake.



Case Examples

ARKANSAS

The CHART process in Arkansas. As the State of Arkansas prepared for using its share of funds from the Master Settlement Agreement, active debate arose among elected officials and other policy leaders in the state. Multiple proposals were offered by a diversity of interests, all in anticipation of the 1999 biennial session of the State General Assembly. Despite this activity, there was little discussion in the 1999 session because the state would not receive the first funding until 2000, and there were concerns about the long-term reliability of funds from the tobacco companies.

To help guide the policy deliberations, the Arkansas Center for Health Improvement (ACHI) performed a study and published a position paper in February 1999. The position paper set forth the following set of principles to guide choices about use of tobacco settlement funds:

- All funds should be used to improve and optimize the health of Arkansans.
- Funds should be spent on long-term investments that improve the health of Arkansans.
- Future tobacco-related illness and health care costs in Arkansas should be minimized through this opportunity.
- Funds should be invested in solutions that work effectively and efficiently in Arkansas.

These principles were informed by analysis in the ACHI position paper regarding tobacco impacts in Arkansas and health issues for the state population, which should be the targets for programming supported by the tobacco settlement funds. The ACHI recommended that eight major activities be pursued: (1) increasing public education, (2) improving professional education, (3) increasing use of tobacco cessation programs by clinicians, (4) limiting youth access to tobacco, (5) using school-based intervention programs, (6) restricting tobacco marketing and promotion, (7) advancing epidemiological and behavioral research, and (8) controlling environmental tobacco smoke.

The four principles presented in the ACHI position paper were accepted by the governor and the leaders of the State Senate and House, effectively limiting the options for use of the tobacco settlement funds to health-related programming. Even within the domain of health-related issues, however, there were numerous proposals for use of the funds that totaled more than \$350 million in annual spending, far in excess of the annual \$62 million that Arkansas expected to receive in the early years of the MSA.

To develop consensus on which initiatives should be funded, the ACHI convened meetings of the organizations offering proposals for health spending. Through this negotiation process, which was supported by data analysis performed by the ACHI, the parties reached agreement on the seven programs to be funded and the distribution of funding shares among them. With a funding proposal established, the Coalition for Healthy Arkansas Today (CHART) was formed to advance the plan for passage by the state.

The governor convened a special session of the general assembly in February 2000, with support from many leading legislators, to pass the spending plan proposed by CHART. The Senate unanimously approved the CHART proposal, but the House referred it, and three alternative spending proposals, to its Rules Committee for consideration. None of the proposals passed the House.

When the general assembly failed to pass the CHART proposal, the governor consulted with the Senate leadership and then announced that he was taking the CHART proposal to the electorate in the November 2000 election as a voter-initiated referendum. The needed signatures were obtained, and in July 2000, the secretary of state validated the signatures and placed the proposal on the ballot. Some members of the general assembly filed suit in the Arkansas Supreme Court to strike the initiative, but the court denied their petition in a four-to-three vote. Following active campaigning during the short time left before the election, the proposal was approved by 64 percent of the votes, the largest majority of any statewide race that year.

With the enabling legislation put in place by the voters, legislation still was required to authorize the funded agencies to spend the tobacco settlement funds. The authorization took the form of appropriations bills, which were taken up by the general assembly in spring 2001. After some negotiations with legislators who still disliked the funding mix, the general assembly passed 12 appropriations bills that were signed by the governor on April 13, 2001. These bills authorized spending of the tobacco funds as specified in the voter referendum.

The Arkansas Tobacco Settlement Proceeds Act. The official title of the voter referendum is the Arkansas Tobacco Settlement Proceeds Act of 2000. This act authorized the creation of seven separate initiatives to be supported by tobacco settlement funds, established short- and long-term goals for the performance of these initiatives, specified the funding shares to support the programs and a structure of funds for the management and distribution of proceeds, and established the Arkansas Tobacco Settlement Commission to oversee the overall program.

Overall Goals for the Funded Programs. The initial act defined four major types of funded programs, and four basic goals to be achieved through them:

- *Tobacco prevention and cessation.* To reduce the initiation of tobacco use and the resulting negative health and economic impact.

- *Medicaid expansion programs.* To expand access to health care through targeted Medicaid expansions, thereby improving the health of eligible Arkansans.
- *Research and health education (Arkansas Biosciences Institute).* To develop new tobacco-related medical and agricultural research initiatives to improve access to new technologies, improve the health of Arkansans, and stabilize the economic security of Arkansas.
- *Targeted state needs programs.* To improve the health care systems in Arkansas and the access to health care delivery systems, thereby resolving critical deficiencies that negatively affect the health of the citizens of the state. These programs involve the College of Public Health (COPH), the Delta Area Health Education Center (AHEC), the Arkansas Aging Initiative (AAI), and the Minority Health Initiative (MHI).

CALIFORNIA In California the lobbying provisions of the state's Political Reform Act apply to everyone who lobbies the state legislature or state administrative agencies, not just nonprofits. Paid lobbyists, organizations that contract with outside lobbyists or employ in-house lobbyists, and organizations that spend \$5,000 or more on lobbying in any calendar quarter are required to register with the state Fair Political Practices Commission. There are no limits on the amount of lobbying that can be done. Registered organizations must, however, report lobbying activities and expenditures. California's definition of "lobbying" is broader than the IRS definition in some ways, and narrower in others. Specifically, California defines lobbying as any action (not just communications) whose purpose is to "influence state legislative or administrative action." In other words, the definition of what constitutes lobbying is subjective. This definition also applies to efforts to influence actions by state administrative agencies, such as commenting on California Department of Health Services regulations. On the other hand, the California definition is narrower in that it does not apply to lobbying at the federal, county, city, or other local agency levels. (J. Simpson, General Counsel, Public Health Institute, California, personal communication, October 14, 2003)

The Public Health Institute, California, did very little in the advocacy arena for many years. About three or four years ago some institute programs wanted to move in an advocacy direction. The institute envisioned a spectrum; at one end sat the RAND Corporation, at the other end sat Families USA. The board determined that the institute could be somewhere in the middle. The institute has started to support pieces of legislation, beginning last year with a bill on emergency contraception (the bill passed). The institute is now taking on lobbying in areas that relate to its programmatic work. This is still a new area for the organization, and there is concern about losing the institute's image of neutrality; but advocacy is happening and is likely to continue.

The board is constantly impressed with the quality of the institute. Board members ask, "So what?" What impact does this have? Why don't we take the conclusions from some important study and go try to change policy?" Organizational debate about this has been going on for years. Advocacy work could lead to more recognition, and more publicity means more potential funders. That is part of the board rationale for pursuing advocacy. At one point in time, several large state programs were cut substantially. Because of this

loss of overhead, the institute took a very aggressive stand in trying to replace those losses through policy programming. It was successful. In the wake of this success, an advocacy committee was established, and has talked about how to make decisions about what policy matters to be involved with, and what to avoid. The institute is many different things to many different people, and a lot of the institute's identity is tied to its projects. Last year's support of the emergency contraception bill (which allows pharmacists to prescribe emergency contraception) may have been the institute's first controversial step. Although the institute was heavily involved in name, the leadership for this advocacy activity really came from one project director and one project. Many foundations list institute projects as grant recipients (rather than the institute as a whole). And people seem able to distinguish between the organization's different roles. Nevertheless, concerns about possible negative repercussions from advocacy work linger.

ILLINOIS The Illinois Public Health Futures Institute successfully developed and lobbied for passage of legislation requiring that the state create a State Health Improvement Plan (SHIP) every four years. The SHIP legislation implements one of the institute's original systems-change plan priorities, developed during the Turning Point process.

After writing a bill, IPHFI obtained a chief sponsor and a bipartisan group of co-sponsors in the Illinois General Assembly. At each step in the process—committee hearings, floor votes in the House, Senate committee hearings and a Senate floor vote—IPHFI lobbied members of the assembly to support the legislation. The lobbying took the form of testimony before committees. IPHFI not only testified on its own behalf, but also recruited its partners to provide testimony, and to file their official support of the legislation and have it entered into the committee record. More than 20 partners expressed their support of the legislation during each committee hearing. Ultimately, the 2003 bill passed both houses of the assembly unanimously.

Strategically, IPHFI felt that, as a small institute, it was important not to take on too much. IPHFI made the decision to organize around only one bill in order to focus scarce human resources and establish a very clear identity during this first lobbying experience.

One challenge faced by IPHFI in this process was the lack of a dedicated presence or lobbyist in the state capitol; this was solved by leveraging the resources of partner organizations. Their lobbyists worked with IPHFI staff to manage the logistics of pursuing legislation by shepherding the bill through the various bureaucratic steps necessary to introduce and move legislation through the process. A second major challenge faced by IPHFI was the veto of the initial bill by the governor. As a result, IPHFI, with its legislative sponsor, undertook negotiations with the governor's office and developed compromise legislation that passed in the 2004, and was signed by the governor in August 2004.

Certain funding cannot be used for lobbying; namely, grant and contract funds from state and federal sources, and grants from private foundations. Unrestricted funds from various sources can be used to support lobbying. The Alliance for Justice

(<http://www.allianceforjustice.org>) provides great resources including publications, workshops, and technical assistance for nonprofits. These resources provide information on the “whats and hows” of lobbying from a variety of legal perspectives, as well as information on funding issues.

Based on these experiences, IPHFI advises emerging institutes to identify an issue or agenda item that will obtain broad support from every partnership sector so that lobbying experiences can be used to strengthen the PHI and its relationships. IPHFI found that everyone was willing to participate and lend actual staff resources, everyone was excited about the process, and everyone was very pleased to have an immediate win that could be claimed as their own. This moved IPHFI’s common agenda forward.



Resources

Relevant Web Sites

<http://www.nonprofitquarterly.org/section/158.html>
<http://www.allianceforjustice.org/nonprofit/WorryFree.html>
<http://www.cnmsocal.org/ForNonprofits/FAQLobbying.html>
<http://www.npaction.org/>
<http://www.healtheducationadvocate.org/>
<http://www.researchethics.org/conference.asp>
<http://futurehealth.ucsf.edu/ccph/links.html#Advocacy>
<http://www.advocacy.org>
<http://www.afj.org>
<http://www.clpi.org>

Books and Journal Articles

[General information on lobbying and advocacy techniques](#)

Skene, E., Nonprofit Advocacy. A Michigan Primer. Michigan Public Policy Initiative.

Smucker, B., (1999). The Nonprofit Lobbying Guide (2nd ed.), Independent Sector.

Charity Lobbying: You Can Do It!. Resource and Discussion Guide. Charity Lobbying in the Public Interest, a project of the Independent Sector

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