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GOVERNING HEALTH UPDATE from Michael W. Peregrine

For the Finance and Audit Committees

RE: KEY ELEMENTS OF BOARD OVERSIGHT OF FINANCIAL MATTERS

Extraordinary financial challenges are placing increasing pressure on the board, and its key finance-oriented committees, to exercise responsible oversight of the financial stability of the health care organization. The CLO can support the board/its committees by providing guidance on topics of appropriate financial oversight inquiry, including (but not limited to) the following:

1. Acknowledgment of overarching board responsibility for monitoring the operating performance, solvency and long-term financial viability for the organization. This includes, but is not limited to, providing advice and rendering decisions on, and monitoring:
 - Significant financial matters, financial policies and matters of corporate finance;
 - Significant strategic investments (including M&A activity);
 - Management's capital allocation decisions;
 - Retirement of debt and compliance with debt covenants;
 - Upcoming maturities and liquidity needs;
 - Credit ratings and ratings strategy;
 - Revenue cycle management and related activities;
 - The integrity and clarity of the company's financial reporting and related disclosures;
 - Annual operating plans and budgets as prepared by management, as well as their implementation;
 - Coordination with risk management committee on practices applied to evaluate liquidity, credit, market and pricing and other financial risks; and
 - The tax planning strategies of the company.
2. Adoption of management-to-board reporting process on financial matters together with specific protocols for reporting of mission-critical financial risks.
3. Appropriate levels of access to senior organizational financial management and to outside financial advisors engaged by the organization or governance.
4. The presence of sophisticated financial expertise on board and on finance committee.
5. Regular reporting from, and access to, chief financial officer and other senior financial executives, and to outside financial advisors.
6. Board-level awareness of the contributing factors for the organization's current financial position and related trends. This would include familiarity with the current unfavorable financial climate for hospitals and health systems in general; the basis for organizational-specific financial concerns (where applicable); and of management plans for correction.
7. Clarity on whether primary governance responsibility for oversight of financial matters rests in full board or a separate standing committee (e.g., the audit committee or finance committee, or a combined audit/finance committee).
8. The process by which the responsible governance body meets to address financial matters within the scope of its charter (including frequency and length of meetings and the development of meeting agenda).
9. The extent to which the responsible governance body coordinates its activities with board committees with responsibility for other finance-related matters (e.g., human resources/talent development; executive compensation; investment; audit and risk).
10. Continuing board educational programming on matters of corporate finance and related industry developments.

Thanks to my partner, Felicia Gerber Perlman, head of McDermott's Restructuring & Insolvency practice, for her help in preparing this memo.

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