



Capital Project Success Depends on Strong Board Oversight

BY BARRY RABNER

PRINCETON HEALTHCARE SYSTEM INITIATED a new capital project planning and oversight process to ensure both project success and community awareness.

The New Jersey nonprofit includes the University Medical Center at Princeton (UMCP), an acute care community teaching hospital; Princeton House Behavioral Health; Princeton Rehabilitation Services; Merwick Care Center, a skilled nursing facility; Princeton HomeCare Services; UMCP Surgical Center; Princeton Fitness & Wellness Center; and Princeton HealthCare System Foundation.

Princeton HealthCare System has 477 licensed beds, more than 2,800 employees, 45 residents and fellows, and 960 physicians affiliated with the system. In 2007, the system's operating revenue was approximately \$350 million.

A Plan is Born

In 2003, Princeton HealthCare System initiated a highly participative and comprehensive long-range strategic planning process. Among the participants were trustees, donors, physicians, elected officials, influential community members, and patients and their families, as well as administrators and clinical and service staff members.

Two community advisory committees also participated in the process, which was led by the system's president and CEO, assisted by health care planning consultants. As the planning effort came to a close, preliminary results were shared with all participants, the press

and area community groups. Questions, comments and suggestions were solicited and integrated into the final plan.

Among the key goals to emerge from the plan was the need to rebuild the system's 310-bed acute care hospital and skilled nursing facility in order to:

- Meet increasing demand for services within the system's traditional service area;
- Introduce new technology and models of clinical practice;
- Enhance operational efficiency and improve service levels.

System leadership believed that failure to succeed in these efforts would result in the eventual closing of both facilities. Throughout the replacement facility planning process, the board of trustees and the senior management team paid close attention to the sources and uses of capital, with budgets for the replacement hospital and the skilled nursing facility set at \$450 million and \$12 million, respectively.

Retreats Add Focus

Early in the planning process, the board began to hold retreats every six months; they expect to continue the retreats until the facilities are occupied.

The retreats include trustees, clinical leaders, donors, administrators and project consultants. Initial retreats focused on project goals and the establishment of guiding principles. Subsequent sessions provided detailed information on program and service development, scheduling, budget and financing issues.

Every meeting includes a review of conformance with guiding principles and a project risk assessment presented by the CEO, project director and the financial consultant for the project.

Project risk was understood to be high, given the system's position in a highly competitive market and in a state in which more than half of the hospitals operate at a loss. In fact, hospital closings have been common and more are expected in the area.

Oversight is Key

Numerous significant steps were taken to reduce the possibility of project failure. Key among them were efforts to strengthen the board of trustees in its oversight capabilities. Board membership was changed to reflect the makeup of the community served by the system. One quarter of the trustees are physicians. Race, nationality, gender, age and residence were considered when selecting new trustees. Term limits were established for trustees and officers.

Trustee skill sets were evaluated and strengthened, including finance, accounting, construction and project management, real estate, government relations and information technology.

The audit subcommittee of the finance committee was reorganized as an independent committee of the board. Internal audit staff members now report directly to the audit committee. Going forward, the system's external audit firm will be selected and directed by the audit com-

(continued on page 28)

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(continued from page 26)

mittee. A requirement to change the external auditor at least every three years was also established. Additionally, the frequency of finance committee meetings was increased from six annual meetings to 12.

Princeton HealthCare System also established a project finance subcommittee of the board's finance committee. Its role is to ensure that optimal financing is obtained and that all other capital sources are managed properly.

Going Forward

Owners', directors' and officers' insurance was evaluated and adjusted to match financial risks associated with the project. A board replacement project oversight committee was established and meets monthly or more often if needed. Members include the Princeton HealthCare System's CEO, CFO, project director and financial advisor.

The project budget and timetable are shared monthly with the executive committee of the board and at all board meetings. The information is also available on the board's password-protected Web site—and it is shared with the executive committee of the medical staff and at quarterly medical staff meetings.

The CEO meets with key project team members at least weekly to cover all major aspects of the project including schedule, budget, governmental and legal affairs, as well as program and design issues. The budget and schedule are shared regularly with the board of the system and the foundation.

These processes and changes are intended to reduce the possibility of project failure and to assure the community that its resources are being managed properly. During the current economic downturn, the system's board and senior leadership believe that strong board oversight will play an even more important role in continuing to move the project forward. **T**

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