THIS REPORT DOES NOT REFLECT OFFICIAL CMA POLICY
FOR INFORMATION

REPORT TO THE BOARD OF TRUSTEES
FROM THE
GOVERNANCE TAC
STEVEN E. LARSON, MD, CHAIR
JULY 27, 2012

Background

In January 2012, the Membership TAC presented to the Board of Trustees a series of recommendations to prioritize membership efforts among other proposals, including the establishment of a Governance TAC to examine possible changes to CMA governance. At its January 2012 meeting, the Board adopted the following recommendation from the Membership TAC:

ADOPTED RECOMMENDATION 14:
That CMA establish a Governance TAC to examine changes to CMA governance, including, but not limited to:
(a) Expanding the House of Delegates to a statewide, ongoing mechanism for year-round engagement on critical issues.
(b) Establishing regionalized town hall meetings for physician engagement.
(c) Expanding the policy making role for the Board of Trustees.
(d) Employing electronic means to poll members on a regular basis.

In response to the Board action, the Board Chairs established a Governance Technical Advisory Committee (Governance TAC) to provide input concerning the issues raised by the Membership TAC, as well as to evaluate CMA’s overall governance structure. Members of the Governance TAC include: Steven Larson, MD, Chair, David Aizuss, MD, James Bronk, MD, Jimmy Chung, MD, Luther Cobb, MD, Malini Daniel, James Foxe, MD, Albert Gelders, MD, James Hay, MD, Howard Krauss, MD, Theodore Mazer, MD, Frederick Russo, MD, MEC Representatives, Bill Parrish and Lisa Reich, and CMA Staff: Dustin Corcoran, Lance Lewis and Ginnie Yee. CMA President-Elect, Paul Phinney, MD, also participated in TAC discussions as an ex-officio member.

The Governance TAC conducted its initial meeting on April 16, 2012, to begin preliminary discussions on the above topics. The TAC requested a professional comprehensive cost analysis to guide their recommendations back to the Board of Trustees.

CMA Governance Cost Study

As approved by the Board during its June 6, 2012 call, CMA retained an outside consultant to conduct a comprehensive cost study of CMA’s governance model, including the costs associated with the House of Delegates and the Board of Trustees to provide insight to the Governance TAC.

Methodology

This project calculated and compared the costs of governance using two cost accounting approaches: the traditional fiscal model and activity-based costing. Activity-base costing (ABC) allows for
corporations to identify the overhead or indirect costs of a project, model or group; and has been known to be helpful in identifying inefficient activities and unnecessary costs. When paired with traditional fiscal accounting, management accounting can provide a more comprehensive picture to guide performance analysis and decision-making. Thus, ABC will value all projects to be more expensive since it includes overhead and staff time considerations.

During its July 18, 2012 meeting, the Governance TAC received a presentation by Professor Mark Young of the USC Marshall School of Business as to the results of the CMA governance cost study; the Board will receive those findings at the July 27, 2012 meeting. In brief, the study will assist CMA with its goal of making the cost of CMA’s various activities more transparent and easier for the Board to align allocations with the strategic plan.

Introduction

CMA is now functioning in the most competitive environment in its history. Dramatic changes in the rapidly evolving medical and health care industry, coupled with federal health care reform and changing physician demographics are confronting California’s physicians in ways which demand CMA’s response. There is a need for finding different ways to conduct CMA’s business with emphasis on program and structural changes, changing how issues are decided and which areas of physicians’ emerging needs should receive major attention.

However, effective functional change requires a more compact and flexible governance structure in order to respond nimbly. All membership sectors must be permitted continued input so that CMA governance does not become isolated. CMA needs to find ways to allow participation in governance from physicians who are not well represented.

The Association has an opportunity to stream-line its policy-making process, and consequently gain a stronger and more representative voice as California’s most prominent physician and patient advocate. The Governance TAC will spend the next several months evaluating all aspects of the CMA governance process, including, but not limited to, the potential options identified below. 

*Included in this discussion is: “What does CMA governance mean to you” and “What are the attributes of CMA governance that you would like to see and/or maintain?” The Governance TAC welcomes input from the Board on these two questions as the TAC prepares its recommendations to the Board.*

CMA’s Mission Statement

CMA’s formal purposes, as provided in CMA Bylaws Section 2.00, is “to promote the science and art of medicine, the care and well-being of patients, the protection of the public health, and the betterment of the medical profession; to promote and support similar interests in its component societies; and to unite with similar organizations in other states and territories of the United States to form the American Medical Association.”

Significant changes have taken place in the manner in which medical care is delivered and financed, and further changes are being considered by Congress. A healthy and responsive organization that meets changing needs of its members is essential to its continued success. However, the purpose of CMA as stated above is wide-ranging and does not suggest the primacy of the needs of the physicians who belong *not* the anticipated needs of those who do *not* belong.

It is essential that CMA articulate its priority to advocate on behalf of the professional welfare and clinical autonomy of its members.
History & Structure

Since its founding, CMA was structured to ensure shared decision-making power between a central statewide organization and numerous autonomous local medical societies organized geographically within each county. In the 1800’s, this was suitable because all medicine was necessarily local and physicians were recognized, practiced and received patient referrals within an area that could be traveled by horse and buggy. Thus, CMA’s structure is deep-seated in the history of early organized medicine.

Today, 39 distinct County Medical Societies (CMS) still operate independently though linked to CMA in what can be thought of as a confederation through joint membership requirements for members. A physician who wishes to join CMA cannot do so without joining the CMS in their area and vice-versa. Historically, both the state association and most counties viewed themselves as separate organizations even though physicians had to join both. Each CMS had its own staff and local governance structure which did not report to the state medical association. Additionally, every CMS had its own system for membership dues billing and collection, accounting, marketing and communications. Some counties had as many as 15 staff while others simply had a part-time employee.

The history of the Association and the various linkages to semi-autonomous organizations has resulted in the build-out of an extensive internal governance structure. CMA’s principal policymaking body is the House of Delegates which is comprised of approximately 500 delegates and 500 alternates that meet once a year to conduct the Association’s annual meeting. This is complimented by a 49 member Board of Trustees that meets four (4) times per year and is charged with implementing House of Delegates policy and attending to emergent matters between the annual House of Delegates meetings. With the Board of Trustees exists a seven (7) member Executive Committee comprised of the Association officers and chaired by the President that meets monthly to make decisions between Board meetings. In addition there are over thirty-five (35) committees and councils of varying size and scope that meet semi-regularly (Figure 1).
FIGURE 1

CMA Governance Structure

[Diagram showing the organizational structure of the California Medical Association]

- HOUSE OF DELEGATES
  - Speakers' Advisory Committee
  - Rules Committee
  - Reference Committees
  - Ad Hoc Committees

- BOARD OF TRUSTEES
  - California Delegation to the AMA

- HOUSE OF DELEGATES COMMITTEES

- COMMITTEES OF THE BOARD
  - Executive Committee
  - Finance Committee
  - Committee on Nominations
  - Committee on Medical Board of CA
  - Audit Committee
  - Bylaws Committee
  - Physicians’ Issues Committee
  - Technical Advisory Committees

- AFFILIATED ORGANIZATIONS
  - CMA Political Action Committee
  - County Medical Societies
  - CMA Alliance
  - Presidents’ Forum

- SUBSIDIARY ORGANIZATIONS
  - CMA Properties, Inc.
  - CMA Foundation
  - Institute for Medical Quality

*Appointed by CMA, Reports to IMQ

April 2012
CMA Governance

A. House of Delegates

The House of Delegates, CMA’s principal policymaking body, establishes the policies that guide the Association and elects CMA’s President-Elect, Speaker and Vice Speaker. With over 1,000 people in attendance, the House convenes annually for four (4) days to debate and act on proposals dealing with myriad policy matters concerning medical practice, public health and CMA governance. Implementation of policies adopted by the House is directed by the Board of Trustees, which deals with policy issues arising between the annual meetings of the House of Delegates and has fiduciary responsibility for the ongoing business of the Association, typically associated with boards of non-profits.

Any CMA member may author a resolution for consideration by the House of Delegates. A resolution can propose new or revised policy on any issue related to CMA’s mission or governance. A resolution can direct CMA to take a position on a particular issue or to take a specific action – for example, to support or oppose federal or state legislation. Resolutions also may be submitted directly to the Board of Trustees for consideration between sessions of the House. The ability of any individual member to propose a policy or action for consideration by the House of Delegates and/or Board of Trustees exemplifies the democratic nature of CMA governance and is typical of the collegiality and deference typically shown within the medical profession among doctors.

Composition of the House of Delegates

The House of Delegates is composed of approximately 500 delegates and 500 alternates who are elected to represent their peers geographically, by medical specialty or by mode of practice. Elected delegates represent the following constituencies:

- County medical societies
- CMA-recognized medical specialty societies
- CMA mode of practice forums*
- CMA Young Physicians Section
- CMA Organized Medical Staff Section
- CMA Medical Student Section
- CMA Resident and Fellow Section
- CMA Ethnic Medical Organization Section

As described in CMA’s bylaws, county medical societies, specialty societies and mode of practice forums are entitled to a number of delegates determined by a “proportionate representation” formula based on the membership count each December 31. CMA sections are entitled to a fixed number of delegates. (Currently, the Young Physicians, Organized Medical Staff and Ethnic Medical Organization sections each are entitled to two delegates, and the Medical Student Section is entitled to one delegate for each accredited medical school in the state.) Each of these constituencies also may elect one alternate delegate for each delegate to which it is entitled. Alternate delegates may be seated and vote on the floor of the House as substitutes for regular delegates at the discretion of delegation chairs.

* Each regular active or associate CMA member belongs to a mode of practice forum most relevant to the member’s practice setting: Solo and Small Group Practice; Medium-Size Group Practice; Large Group Practice; Very Large Group Practice; Academic Practice; Hospital-Based Practice; Government-Employed Physicians; or Administrative Medicine.
In addition to elected delegates and alternate delegates, the following individuals participate as *ex-officio* members of the House:

- Members of the CMA Board of Trustees
- Past presidents of CMA

Finally, members of CMA’s Council on Scientific Affairs and members of the California Delegation to the AMA (who are not otherwise seated as delegates) also sit as *ex-officio* members of the House, but without voting rights.

There are no term limits for delegates or alternates and a sizeable portion of the physicians in attendance at the House of Delegates have been coming for 20 years or more.

**Delegations and Delegation Caucuses**

County medical societies are grouped into 11 geographic districts encompassing the entire state, with the delegates from the medical societies in each district comprising a district delegation. These delegations meet at least once before the House of Delegates meeting to elect their chairs, to consider endorsement of resolutions from within the delegation and to discuss positions on the issues. Delegates representing the other constituencies listed above constitute those constituencies’ delegations. During the House of Delegates meeting, most delegations meet daily to review reference committee reports (see below), take positions on key issues and meet with candidates for elected offices. Delegation chairs comprise the Speakers’ Advisory Committee, which meets daily during Annual Session and as needed during the year.

**Responsibilities of Delegates**

The most fundamental responsibility of delegates is to represent their constituents in the House of Delegates by attending and actively participating in delegation caucus meetings and in all sessions of the House. Individual delegations may have their own rules setting forth additional or more specific duties and responsibilities. These may include the following, which the full House has voted to recommend to delegations:

- Communicate CMA policy, information, activities and programs to constituents.
- Relate constituent views to the appropriate CMA leaders, governing body or executive staff.
- Advocate constituent views within the House of Delegates or other governance unit, including through the introduction of resolutions.
- Report highlights of House of Delegates meetings to constituents (for example, at hospital medical staff, county, state and specialty society meetings).
- Participate in leadership development opportunities, such as the CMA Leadership Academy.

In carrying out their duties, delegates are strongly encouraged to seek the assistance and guidance of their delegation chair and other experienced members of their delegation.

**The Business of the House: Resolutions and Reports**

The principal business of the House of Delegates is taking action on policy proposals presented in the form of resolutions or report recommendations. Resolutions may be authored by any CMA member and may be submitted to the House by any delegate, alternate delegate or delegation as a whole.
Reports containing recommendations for action by the House are submitted by the Board of Trustees, CMA councils or committees or CMA departments (e.g., Center for Legal Affairs).

All business to come before the House must be submitted to the CMA headquarters no later than 60 days before the scheduled start of the annual meeting of the House. Resolutions are reviewed by the Speaker, who may edit them to assure clarity and conciseness. Policy and fiscal notes, summarizing existing CMA policy on the issue and the potential cost to CMA of implementing the proposal, are developed and appended to each resolution by CMA staff (research which is extremely time-consuming). An agenda packet containing all resolutions and reports is transmitted to all delegates and alternate delegates no later than 21 days in advance of Annual Session.

Resolutions submitted less than 60 days before Annual Session are reviewed by the House Rules Committee, consisting of five delegation chairs, to determine whether they meet established criteria for acceptance as “emergency” business.

**Election of Officers and Other Business**

In addition to action on resolutions and reports, the House of Delegates annually elects the Association’s President-Elect, the Speaker of the House and the Vice Speaker of the House. The House also ratifies the elections of CMA trustees. Other business on the House’s agenda includes addresses by the CMA President, President-Elect and Chief Executive Officer.

**Reference Committees**

All resolutions and reports submitted to the House of Delegates are assigned by the Speaker to “reference committees” according to subject area. Reference committees are appointed by the Speaker for the purpose of facilitating deliberations and action on resolutions and reports. On the first day of the House of Delegates meeting, each committee convenes a hearing to receive testimony for or against each item of business, and then meets in executive session to deliberate on the merits of each resolution/report and the testimony presented thereon. The committee then prepares and presents to the House a report containing its recommendations for action. The recommendations of the reference committees become the basis for debate and action on the floor of the House.

The number of reference committees and the subjects assigned to each are determined by the Speaker and may vary from year to year according to the number and subject areas of the resolutions and reports submitted. Following is a representative designation of subject areas:

- Committee A – Medical Practice Issues
- Committee B – Health Care Financing and Health System Reform
- Committee C – CMA Membership, Finance and Governance
- Committee D – Insurance and Physician Reimbursement
- Committee E – Quality, Ethics and Legal Issues
- Committee F – Health Professions and Facilities
- Committee G – Science and Public Health

Each reference committee is composed of three or more delegates or alternate delegates appointed by the Speaker from a list of nominees submitted by delegation chairs. At the discretion of the Speaker, members may be reappointed until they serve a maximum of three consecutive years or until they have served as chair of the committee. The Speakers endeavor to balance appointments so that each delegation is represented on the committees in proportion to the delegation’s size, relative to the total
number of delegates in the House. Efforts are also made to avoid appointing committees that are weighted with members from a single geographic area, specialty or mode of practice.

Attending reference committee hearings to present testimony (either as an individual or on behalf of one’s delegation), or to monitor and report back to a delegation caucus on testimony presented, is one of the principal responsibilities of delegates. Any CMA member may speak to any and all of the resolutions and reports assigned to the committees.

**Fiscal Impact**

The full financial impact of the House of Delegates has been historically difficult to quantify but generally thought to be over $1 million. The historical difficulty in accounting for the House’s cost stems from a variety of factors and current practices including, but not limited to:

- Costs of participation are borne by CMA and the various CMSs separately which leads to unknowns. CMSs pay for travel, lodging and meals for their respective delegations to attend and do not report these totals to CMA.
- The CMA operating budget does not employ an activity-based costing methodology that reveals the total cost easily. For example, the budget for the House of Delegates meeting does not reflect the costs of payroll, advance preparation and research by the staff or the travel and lodging costs (those costs are buried in the departmental level budgets across the entire corporation).
- Staffing costs and opportunity costs for the CMSs are unknown.
- No research has been conducted to estimate the fair market value of the physicians’ volunteer time and opportunity cost associated with attending the House of Delegates in lieu of practicing medicine over the same time period.

**Potential Options for Consideration:**

- Change the House of Delegates function and procedures to focus on developing consensus on global issues and broad policies. Continue to elect leadership by the House.
- Eliminate the House since its large size and cost perpetuates an inefficient, cumbersome, albeit democratic, policy developing process. No need to have more than one policy-making body (i.e., Board of Trustees). Allows individual interests, rather than organizational priorities to drive the Association’s activities. The expense, time and efforts of committees and staff to carry out House mandates which may have little or no relevancy to the majority of physician’s needs and may not be worth the expense of participatory democracy in this particular forum.
- Permit the Board to select priority topics for House of Delegates discussion and consensus.
- Primary function of the House of Delegates is to identify and prioritize organizational issues. Maximum number of CMA issues should be set; to add one, an existing priority must be dropped. HOD to determine what percentage of budget to be spent on each designated priority issue.
- Presentations and written reports would address each priority issue in order for the House of Delegates to have adequate information regarding the relative importance of each proposal.
- Reconfigure House of Delegates procedures so that resolutions are accepted throughout the year, reviewed and consolidated by standing policy committees into composite resolutions or reports,
sent onto the House of Delegates for action and then to the Board for definitive policy direction, and ultimately for implementation by committees and staff.

- Reduce the size of House of Delegates by changing ratio of delegates:component society membership.

- Increase the size of HOD in order to encourage membership participation and leadership development.

B. Board of Trustees

The Board of Trustees has the responsibility for ensuring that the policies adopted by the House of Delegates are implemented by the Association. In addition, the Board addresses interim policy issues which may arise between annual meetings of the House of Delegates. The Board is vested with the fiduciary responsibility of prioritizing the many policies and activities proposed through CMA’s policy-making apparatus by adopting an annual budget for the Association. The Board’s prioritization responsibility includes, but is not limited to, receiving and acting on reports and recommendations of Councils and Committees appointed by the House of Delegates, as well as reports of Committees of the Board of Trustees. The “Powers and Duties” of the Board are spelled out in the CMA Bylaws (Chapter 10, §10.01):

Subject to the provisions and limitations of the Non-Profit Mutual Benefit Corporation law and any other applicable laws, the articles of incorporation and bylaws, and subject to lawful resolutions passed by the House of Delegates, the association’s activities and affairs shall be managed, and all corporate powers shall be exercised, by or under direction of the board.

Without prejudice to the general powers set forth above, but subject to the same limitations, the board shall have the power to:

a) Appoint and remove, at the pleasure of the board, all corporate officers, agents and employees; prescribe powers and duties for them as are consistent with the law, the articles of incorporation and these bylaws; fix their compensation; and require from them security for faithful service.

b) Change the principle office or the principal business office in California from one location to another; and designate a place in or outside of California for holding any meeting of the board or the House of Delegates.

c) Borrow money and incur indebtedness on the corporation’s behalf and cause to be executed and delivered for the Association’s purposes, in the Association’s name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations and other evidences of debt and securities.

Composition

The Board of Trustees (with a total membership of 49) consists of 26 physicians elected from the 11 geographic Trustee Districts, plus a representative from the Resident and Fellow Section (12th District). The number of Trustee representatives is based on membership within the District. In addition to the 26 physicians from the geographic districts, the Board consists of:
1. President
2. President-Elect
3. Immediate Past President
4. Speaker and Vice-Speaker
5. Council on Scientific Affairs Representative
6. Two Specialty Delegation Representatives
7. Ethnic Medical Association Section Representative
8. Organized Medical Staff Section Representative
9. Young Physician’s Section Representative
10. Medical Student Representative
11. Two Very Large Group Forum Representatives
12. One Large Group Forum Representative
13. Two Medium-Size Group Forum Representatives
14. Four Solo/Small Group Practice Forum Representatives
15. One Hospital-Based Practice Forum Representative

All 49 members may vote. The Alliance President is seated as an ex-officio member, without vote.

Most Trustees serve for terms of three years (with a maximum of 3 terms), except when an unexpired term is filled. The student representative and the resident physician representative have one-year terms. The young physician representative serves for a term of two-years.

At the first organizational meeting of the Board held immediately after adjournment of the House of Delegates, the Board elects one Trustee to be Chair of the Board, and one to be Vice-Chair. Per the Bylaws, the Chair and Vice-Chair may serve a maximum of three (3) one (1)-year terms in each position.

**Meeting Schedule and Format**

The Board of Trustees holds meetings four (4) times per year. Additionally, during the House of Delegates meeting, the Board conducts limited breakfast sessions on Sunday and Monday mornings, and the Board Organizational Meeting immediately following adjournment of the House of Delegates on Monday. Special meetings may be held as provided in the Bylaws. Board meetings may be one-day or two-day in-person meetings or held via teleconference.

**Agenda**

With the exception of certain standard agenda items (Approval of Minutes, Membership Report, Official Correspondence, Reports of the Officers, and Reports of Chief Executive Officer, and Legal Counsel), the meeting agenda is determined by committee reports and other business which is brought to the attention of the Board Chair in advance of the meeting by the Officers, Trustees, committee chairs and the staff.

Every effort is made to see that items which require action by the Board are written and distributed to members of the Board in advance of the meeting at which they will be considered (emergency situations excepted).
**Fiscal Impact**

The annual cost of the Board of Trustees as reported in the Association’s financial reports was $135,000 in 2011. This cost does not include:

- Salaries of the Association officers or their per diems.
- Cost of staff time associated with preparation of reports and materials for the meeting.
- Cost of travel, meals and lodging for staff to attend the meeting (those costs are allocated to the various departments within the corporation).
- Costs of travel and incidental expense incurred by physicians who chose not to seek reimbursement from CMA for their attendance at the meeting (about one-third of Trustees elect not to seek reimbursement from the Association).
- The fair market value of the physicians’ volunteer time and opportunity cost associated with attending the Board of Trustees in lieu of practicing medicine over the same time period.
- The costs incurred by various CMSs for attendance of their Executive Director at the Board of Trustees meeting to observe the proceedings.

Management theory holds that the role of governing boards is to make policy, assure its implementation and engage in long-term planning. To the extent that a board deviates from these key duties and becomes involved in *operational* issues, the valuable time of its members and its value to the organization are not maximized. Goals for the Board to work towards achieving include:

- strengthening the quality of Board deliberations;
- improving Board effectiveness in developing policy;
- increasing understanding and reaching consensus on the individual responsibilities and roles of Board members;
- heightening enthusiasm for Board activities;
- advancing teamwork and fellowship on the Board; and
- instilling greater sense of ownership of and commitment to CMA and the Board.

Members of the Board have stated that their time dedicated to serving CMA is not always maximized for it is often spent discussing details, editing documents presented, and becoming involved in protracted discussions not directly related to establishing policy or assuring its implementation, thereby functioning as a committee rather than a board.

A key in making CMA more efficient and, therefore, more responsive to member needs and better able to satisfy the needs of volunteers who serve on the Board, is to streamline Board meetings. To accomplish this, the Board must replace immense amounts of control by significant amounts of trust.

At present, the CMA Board of Trustees has 49 voting members, including officers. The CMA Alliance President is also an ex-officio, non-voting member of the Board. At the conclusion of the 2012 House of Delegates, three (3) additional Trustees will be seated, bringing the total to 52 total members. As a comparison, the boards of other large medical societies are as follows:

- American Medical Association 21
- Texas Medical Association 17
- Massachusetts Medical Society 30
- Florida Medical Association 34
- Pennsylvania Medical Society 37
- Michigan State Medical Society 45
Potential Options for Consideration:

- Reduce the size of the Board in order to increase deliberative effectiveness and to allow for more efficient and flexible functioning during one-day meetings.

- Adopt the AMA model whereby the House of Delegates elects the Board, allowing the House to play a more direct role in policy formulation throughout the year by virtue of choosing Trustees whose continuing service may depend on their responsiveness to the House.

- Tenure term limits.

C. Executive Committee

The Executive Committee, composed of the President, President-Elect, Chair of the Board of Trustees, Speaker, Immediate Past-President, Vice-Chair of the Board of Trustees and Vice-Speaker of the House, performs the function of acting on emergency or urgent policy matters which arise between meetings of the Board of Trustees and performs other duties and tasks assigned by the Board. The Executive Committee also formulates policy recommendations for consideration by the Board and plays a leadership role in formulating plans for future directions and activities of the Association as well as providing liaison with various organizations and groups. All actions of the Executive Committee, as well as its recommendations, are reported to the Board of Trustees and are subject to Board approval.

Potential Options for Consideration:

- Clearly delineate those decisions which can be made by staff (with report back) in lieu of Executive Committee action or in consultation with the Board Chair or President, in order to expedite CMA business.

- Determine if the Executive Committee can meet as needed to handle only emergency business (e.g., any business that cannot wait for Board action) and any liaison functions as required.

- Reduce the size of the Executive Committee to fewer members by not including the Immediate Past-President and/or Speaker and Vice-Speaker. Fewer participants in decision-making may facilitate the process but will also diminish the range of opinions and number of officers available to represent the association. It also concentrates the Officers’ authority to a smaller group.

- Consider moving Speaker offices to non-voting parliamentarians.

D. Councils and Committees

Per CMA Bylaws, Chapter 14.00:

14.01 COUNCILS

This Association shall have such councils appointed by the Board of Trustees as specified in these Bylaws and as otherwise deemed advisable by the Board of Trustees.
14.06 STANDING COMMITTEES: CREATION OR TERMINATION
The Board of Trustees may create or terminate standing committees and, when applicable, shall
give due consideration to the recommendation of the council or committee under which any such
committee functions.

14.13 SPECIAL COMMITTEES
The Board of Trustees is authorized and empowered to appoint special committees, with special
instructions as to work to be undertaken, whenever it is deemed necessary. The councils are
authorized and empowered to appoint special committees as authorized by the Board of Trustees.
Special committees shall report as directed in the resolution or action creating them, and shall
disband as soon as the assignment is completed.

Potential Options for Consideration:

- Establish an automatic sunset of 3 years for all standing committee so that their value,
effectiveness and relevancy will be regularly assessed.

- Eliminate medical student positions on committees and find different ways to involve them in
  CMA activities. If such participation is selectively important to them, the students may use some
  of this budgeted money for their continuing involvement in CMA committee work or apply it to
  other activities. Is information gained during committee work being shared with fellow medical
  students?

- Tenure term limits.

Conclusion

The ideas presented in this report are just a sampling of concepts under consideration by the TAC and
are not meant to be all inclusive nor have they been discussed by the TAC in sufficient detail to
warrant action by the Board at this time. As noted, the Governance TAC will spend the next several
months evaluating all aspects of the CMA governance process and will convene additional meetings
to refine proposals and develop fiscal impact estimates for various reform proposals with the intent of
presenting recommendations for consideration by the Board as early as the October 2012 Board
meeting. The Governance TAC welcomes input from the Board as to its suggestions for governance
reform.

Attachments:

A. Overview of the Cost of Governance at CMA
B. Cost of Governance at CMA Study
C. Professor Mark Young Presentation Slides

Staff Contact: Ginnie Yee
415/882-5170
## Governance at the CMA

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The Cost of Governance at
The California Medical Association

A Study Commissioned by the California Medical Association

S. Mark Young, Ph.D.\textsuperscript{1}

Professor of Accounting and
The George Bozanic and Holman G. Hurt Chair in Sports and Entertainment Business

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July 5, 2012

\textsuperscript{1} I thank Ken Park for his assistance in this study and the employees of the CMA for their cooperation.
EXECUTIVE SUMMARY

RESEARCH QUESTIONS

The objective of this study is to determine how the California Medical Association (CMA) can better manage the costs of governance activities. Governance is defined as the system by which the association is directed and controlled. To this end, Mr. Dustin Corcoran, Chief Executive Officer of the CMA posed the following four questions to be addressed. These are:

**Question 1**: What is the cost of governance in general for the California Medical Association?

**Question 2**: What is the cost of conducting the annual meeting of the California Medical Association House of Delegates?

**Question 3**: What is the cost of conducting a typical meeting of the California Medical Association Board of Trustees?

**Question 4**: What is the opportunity cost of physician time in attending the House of Delegates Meeting and serving on the Board of Trustees?

RESEARCH APPROACH

The current method that the CMA uses to control costs is a traditional budgetary approach to cost management. A budget is determined and dollars are assigned to cost centers and categories. The method is quite acceptable for financial reporting but often ineffective for internal decision-making.

Our first step was to determine whether the CMA could adequately address the four research questions using their current method. We gathered all available financial and other data in their current formats and performed an analysis. Next, we applied another method of analysis to the data known as activity-based costing to address the questions, and then compared the results of the two methods. Below, we summarize the key findings. Details of our analysis are presented and discussed in the main body of the report.

SUMMARY OF FINDINGS

Overall, we found that the current approach used by the CMA to addressing the four research questions understates governance costs quite significantly. More importantly, the kinds of questions that Mr. Corcoran posed cannot be answered adequately using such a traditional approach and thus we have suggested that an ABC approach be adopted for
greater accuracy and better decision-making. The CMA’s current approach, however, is not unique to them and is still used by many organizations.

In addition to understanding the data more clearly, another significant benefit of engaging in the ABC approach is that all employees will begin to think differently about how their actions and decisions at work affect costs. CMA employees were very cooperative in providing us with information for the study, and over the course of two months we obtained data from every employee related to how they spend their time at work. We also had discussions with many either by phone, via email or in person. Several employees have already mentioned that going through the exercise allowed them to focus much more on how they allocated their time at work. We hope that the results of the study will allow the CMA to better manage the costs of governance and ultimately its entire cost structure. Our answers to the four main questions follow.

**Question 1 – What is the cost of governance in general for the CMA?**

Currently, the CMA only uses their budget allocation to determine the cost of governance. No employee or other indirect (fixed) costs are included directly in the cost of governance. These budgeted costs total $1,445,536.

Using the ABC approach, we calculated that the total cost for governance is actually $5,106,413 which includes allocations of employee and other fixed costs related to operational support and administration). The difference in costs between the two methods shows that the ABC method is 253% ($5,106,413 - $1,445,536/1,445,536) more costly than under the current system. Thus, the CMA is under-costing the cost of governance by 253%.2

**Question 2 – What is the cost of conducting the House of Delegates Meeting?**

Similarly, current budgeted costs for the House of Delegates total $133,700. The CMA currently does not include employee and other indirect (fixed) costs related to operational support and administration in their House of Delegates cost calculation. After applying the ABC approach to include these costs, the total costs for the House of Delegates Meeting is $1,101,914 or 723.4% ($1,101,914 - $133,700/133,700) more than what the traditional method shows. Thus, the CMA is under-costing the House of Delegates Meeting cost by 723.4%.

**Question 3 – What is the cost of conducting a typical meeting of the Board of Trustees?**

Current budgeted costs for the 4 Board of Trustee Meetings currently total $146,973. The CMA currently does not include employee or other indirect (fixed) costs related to operational support and administration in their Board of Trustee meeting costs. After using the ABC approach to include these costs, we found that

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2 None of our calculations include any costs incurred by County Medical Societies in sending doctors and staff members to meetings.
the total costs for the 4 Board of Trustee meetings are $1,725,266 According to or 1074% ($1,725,266 - $146,973)/$146,973) more than under the current approach.

The Board of Trustees meets four times a year under the schedule below. While a total of eight days are spent across the four meetings the number of actual hours differs depending on the specific meeting. The number of hours across the four meetings totals 40. Dividing the total cost of $1,725,266 by 40 hours is $43,132/hour. Thus the cost for each meeting is as follows:

- January - Two-day meeting, 15 hours total; $646,980
- April - One-day meeting, 6 hours total; $258,792
- July - One-day meeting, 9 hours total; $388,188
- Annual Session - Four-day meeting, 10 hours total; $431,320

**Question 4 – What is opportunity cost of physician time in attending the House of Delegates meeting and serving on the Board of Trustees?**

An opportunity cost, is the cost of an alternative that must be forgone in order to pursue a certain action. Thus, the opportunity cost of attending a meeting of the CMA means that physicians forego the income they could have made if they were working at their practices instead.

The Bureau of Labor Statistics reports that across all categories of physicians the average daily salary is $726. This number is understated, and hence conservative, as it does not include any other type of compensation or fringe benefits. Based on attendance at the 2011 HOD Meeting and the number of members participating at all Board Meetings, we arrive at the following costs.

**House of Delegates Meeting**

Seven hundred and fifty physicians attended the 2011 meeting, which lasted for three days. Thus, the total number of physician days is 2250 (750 physicians * 3 days) and the total cost is: 2250 physician days * $726/day or $1,633,500. This number and those for the Board of Trustees Meetings are conservative and do not include the amount of time that members devote to tasks related to these meetings.

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3 The CMA requested that we do these calculations per actual hour spent in meetings rather than by the day.
4 We looked at other statistics related to daily salaries of physicians but the Bureau of Labor Statistics was by far the most complete and comprehensive.
5 While there are other special meetings before and after the official meeting these were not included in these calculations.
Board of Trustees Meetings:

Four meetings are held each year under the following schedule:

- January - Two-day meeting; 48 physicians in attendance
- April - One-day meetings; 45 physicians in attendance
- July - One-day meeting; 44 physicians in attendance
- Annual Session - Four-day meeting; 45 physicians in attendance

Summing across all sessions, the total number of physician days is 365 * $726/day which totals, $264,990.
RESEARCH QUESTIONS

The objective of this study is to determine how the CMA can better manage the costs of governance activities. Governance is defined as the system by which the association is directed and controlled. To this end, Mr. Dustin Corcoran, Chief Executive Officer of the CMA posed the following four questions to be addressed. These are:

**Question 1**: What is the cost of governance in general for the California Medical Association?

**Question 2**: What is the cost of conducting the annual meeting of the California Medical Association House of Delegates?

**Question 3**: What is the cost of conducting a typical meeting of the California Medical Association Board of Trustees?

**Question 4**: What is the opportunity cost of physician time in attending the House of Delegates Meeting and serving on the Board of Trustees?

Answering questions of this nature, however, cannot be done in isolation of the other activities that go on in an organization. Governance, while a significant issue for the California Medical Association, is one of a number of important functions of the organization. Thus, in addressing the four research questions a number of other significant issues surfaced that ultimately should lead to the redesign of the entire costing system of the CMA.

RESEARCH APPROACH

We performed a comprehensive study of all information supplied by the CMA as well as information obtained from employees. The data supplied by the CMA consists of two general types – financial statements such as budgets and employee costs and estimates of how employee spend their working hours by activity.

From these data we determined the costs for each of the research questions above using the methods currently in use by the CMA. Then, we applied the method of activity-based costing (ABC) to derive new cost information and provide the ABC numbers to answer the above questions. Next, we compared the costs under the traditional and ABC methods to determine the differences between both methods. Finally, we developed a preliminary ABC costing model for the governance function at the CMA.
CURRENT COSTING APPROACH AT THE CMA

Currently, the CMA uses a very traditional approach to costing throughout their organization. As in many organizations, a budget is developed and dollars are assigned to the 56 cost centers pertaining to governance. The CMA assigns costs to its cost centers but does not allocate fixed costs such as operational support, employee salaries, fringe benefits, payroll administration, etc. Thus, the only costs associated with specific functions such as Governance are those costs shown in the budget. Without allocating employee costs and other fixed costs to activities like Governance, all activity costs will be grossly understated. The total 2012 budget for Governance is $1,445,536.

ACTIVITY BASED COSTING APPLIED TO THE CMA

Activity based costing is an approach that takes all resources and their associated costs and assigns them to specific cost pools. A significant benefit to using ABC is that indirect (fixed) costs such as the cost of employee resources like salaries and fringe benefits, payroll taxes and administration and other fixed costs such operational support and administrative costs can be assigned directly to specific cost pools using cost drivers. Assigning such indirect costs serves a key purpose. Without a facility, most organizations cannot operate. Thus, if the cost of operational support and other resources such as computer services are allocated to departments, management will most likely valuate the services for which they are being charged as they evaluate their operation. Without allocating these resources users would not consider them, as they would be thought of as “free.” Thus, allocating indirect costs provides a much more accurate representation of the costs of performing each activity. A significant part of the study involved conducting a survey of all employees of the CMA to determine how they were spending their time at work. See Appendix 1 for a copy of the survey.

THE GOVERNANCE ACTIVITY OF THE CMA

In this study, governance is one of a number of activities that the CMA undertakes. We were charged with determining the overall cost of governance for the CMA as well as the cost of the House of Delegates Meeting and the activities of the Board of Trustees. Using the ABC method, and with the assistance of senior executives at the CMA, we broke the governance activity down into seven cost pools including: the House of Delegates, Board of Trustees, Councils and Committees, Sections and Forums, Subsidiary Organizations, Affiliated Organizations and Internal Processes. Further, we

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6 The CMA uses the term cost center to denote specific line items in the governance budget. This term should not be confused with the term we use, cost pool. A cost pool as we define it, can consist of multiple cost centers from the governance budget.

linked each of the 56 cost centers to one of the seven cost pools. Using this approach we are able to apply ABC to all aspects of the governance function and discuss this further in the main body of the study. Finally, we estimate the opportunity cost of physicians’ time spent in attending the House of Delegates Meeting and in serving on the Board of Trustees. The results of the study will lead ultimately to the larger question related to how the CMA can better manage its entire cost structure.

RESULTS

Question 1 – The Cost of Governance for the CMA

Current Approach:

The CMA’s budgeting process follows a traditional approach. Total available funds are allocated to 56 cost centers each of which is tied to a particular program or committee. Each cost center has specific line items associated with it.

1. The budget allocation for governance is $1,445,536. Note that two major categories of costs are missing from this calculation – employee costs such as salaries and fringe benefits and other fixed costs related to operational support and administration.

2. While not included in current decision-making regarding governance, the CMA did provide supervisory estimates of the percentage of available working hours each employee spends on governance activities. See Table 1. We multiplied these percentages by each employee’s compensation and summed across all employees. The total cost of employee time working in governance activities estimated by supervisors is $2,077,171 or 25.96% of total employee costs. If the CMA combined the budget allocation and employee cost data, the total cost of governance would be $3,400,811.

ABC Approach:

The ABC approach divides costs in the budget into activities. Specific cost drivers are then used to allocate costs based on how many units of the cost drivers are used. The approach will be most useful when we discuss the cost of the House of Delegates and the Board of Trustees Meetings.

Regarding the overall cost of governance, we combine three costs: (1) overall budgeted costs for the governance function, (2) a more accurate assessment of employee costs

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8 In the FTE Time Allocation By Subject Matter, the CFO of the CMA noted that the governance time was the sum of two columns of data, Governance and Subsidiaries but that the rest of the categories were not governance related.
based on our survey, and (3) an allocation of other fixed costs such as operational support and administrative costs.9

1. Budgeted costs for specific aspects of the governance function. These costs total $1,445,536 and are the same overall under the current method.10

2. Employee costs associated with the governance function. We conducted a comprehensive survey of every employee at the CMA to determine more precisely how they spend their time on the governance function. Using this approach employee costs equal $2,796,879 or 34.83% of the employee salaries budget ($8,030,085, See Table 3). This is significantly higher than under the current method where the estimate was 25.96%. Table 2 illustrates hours spent by each employee across the seven governance categories. Table 3 shows the total cost of governance by multiplying total governance hours for each employee as a percentage of their total working hours, by their compensation. Finally, Table 4 presents total employee dollars spent for each employee by governance category.

3. Under the ABC, fixed costs also must be allocated to each activity. Using employee costs as the cost driver, or allocation basis to assign costs, we allocated the total fixed costs related to operational support and administration for the CMA of $2,480,61311 by multiplying by 34.83% (calculated in (2) above), to arrive at $863,998 to be allocated to the governance function.

4. Thus, the total cost for governance using the ABC approach is $5,106,413, ($1,445,536 + $2,796,879 + $863,998). Since the CMA currently does not include employee and other fixed costs in calculating costs for governance, the difference between the ABC calculations and the current method is: ($5,106,413 - $1,445,536)/1,445,536 or 253% more than under the current system. Thus, the CMA is under-costing the cost of governance by 253%.

5. If we include the employee costs that we calculated under the current system, the difference is less but is still 46.9% more under the ABC method ($5,106,413 - $3,400,811)/$3,400,811 = 50%).

Question 2 – The Cost of the House of Delegates Meeting

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9 Note that in all of the data presented, we rounded the numbers to two decimal places.
10 These budgeted costs will most likely change once a complete ABC approach is applied to all of the activities of the CMA and not just governance. At this point, however, the use of these budgeted costs is appropriate.
11 The fixed costs (essentially overhead) of $2,480,613 is calculated from data in the 2012 CMA 2012 Proposed Budget. In conversations with Lance Lewis, CFO of the CMA, it was determined that a percentage of the dollars contained in the Operational Support ($1,628,805) and Finance & Administration ($1,159,628) Cost Centers (page D of the budget) less $307,820 (non-overhead and non fixed costs in these accounts should be allocated to governance.
Current Approach:

1. Budgeted costs for the House of Delegates total $133,700.

2. No fixed costs such as Employee salaries or operational support and administrative costs are currently allocated to calculate the cost for the House of Delegates meeting.

ABC Approach:

With the help of CMA executives, we broke the governance activity down into seven major cost pools: (1) House of Delegates, (2) Board of Trustees, (3) Councils and Committees, (4) Sections and Forums, (5) Subsidiary Organizations, (6) Affiliated Organizations and (7) Internal Processes. Table 5A shows how each of the current cost centers are tied to each of the 7 new cost pools. The flow of the figure follows the way the budget is delineated. Table 5B shows the same data but groups together all activities pertaining to a specific cost pool.

For the House of Delegates three of the 56 previous cost centers were assigned.

1. Budget costs for the House of Delegates are $133,700 (See Table 5B).

2. Employee costs associated with the House of Delegates Meeting. We conducted a comprehensive survey of every employee who works at the CMA to determine the amount of time worked on all aspects of the House of Delegates (See Appendix 1). Employee Costs of House of Delegates Meeting total $738,998 or 9.20% of total employee costs ($8,030,085) See Table 4, Column 3.

3. Operational support and administrative (fixed) costs: We used the percentage of overall employee costs or 9.20% and multiplied this by $2,480,613 (the total fixed costs related to operational support and administration) to get $228,216.

4. Total costs for House of Delegates Meeting: $1,101,914 ($133,700 + $738,998 + $228,216). This is 723.4% ($1,101,914 - $133,700/133,700) more than the budgeted costs for the House of Delegates Meeting.

Question 3 – The Cost of the Board of Trustees Meetings

Current Approach:

1. Budgeted costs for the four Board of Trustees Meetings are $146,973 based on the proposed 2012 Budget (Cost Center 502).
2. Employee costs for the Board Meetings are not currently calculated and no other fixed costs are allocated.

**ABC Approach:**

1. In detailed discussions with senior executives, the budgeted costs for the Board of Trustees included more costs than presented in cost center 502. Total costs based on the governance budget actually total $910,357. See Tables 5A and 5B.

   Employee costs for the Board Meetings are $803,836 or 10% of total employee cost ($8,030,085). These data were obtained from the same survey (Appendix 1) as discussed above. See Table 4, Column 3 for the data.

2. Other fixed costs: We used the percentage of overall employee costs or 10% and multiplied this by $2,480,613 (the total fixed costs related to operational support and administration) to get $248,061. Thus total costs for the 4 Board of Trustee Meetings are $1,725,266 ($672,377 + $803,836 + $249,053) or 107.4% ($1,725,266 - $146,973)/$146,973 more than under the current system.

   The Board of Trustees meets four times a year under the following schedule. While a total of eight days are spent across the four meetings the number of actual hours differs depending on the specific meeting. The number of hours across the four meetings totals 40 hours. Dividing the total cost of $1,725,266 by eight days is $43,132/hour. Thus the cost for each meeting is as follows:

   - January - Two-day meeting, 15 hours total; $646,980
   - April - One-day meeting, 6 hours total; $258,792
   - July - One-day meeting, 9 hours total; $388,188
   - Annual Session - Four-day meeting, 10 hours total; $431,320

**Question 4 – Opportunity Costs of Physician’s Time in Attending the House of Delegates Meeting and the Board of Trustees**

Opportunity cost is the cost of choosing one alternative over another. Thus, the opportunity cost of attending a meeting of the CMA means that physicians forego the income that they would have made if they were working instead during that time period.

The Bureau of Labor Statistics reports that across all physicians the average daily salary is $726. See Table 6. This statistic does not include any other type of compensation or fringe benefits and is thus understated and conservative. Based
on attendance numbers at the 2011 HOD Meeting and the number of members participating at Board Meetings, we arrive at the following costs:

**House of Delegates Meeting**

Seven hundred and fifty physicians attended the 2011 meeting, which lasted for three days. Thus the total number of physician days is 2250 (750 physicians * 3 days) and the total cost is: 2250 physician days * $726/day or $1,633,500. This number and those for the Board of Trustees Meetings are conservative and do not include the amount of time that members devote to tasks related to these meetings.

**Board of Trustees Meetings:**

Four meetings are held each year under the following schedule:

- January - Two-day meeting; 48 physicians in attendance
- April - One-day meetings; 45 physicians in attendance
- July - One-day meeting; 44 physicians in attendance
- Annual Session - Four-day meeting; 45 physicians in attendance

Summing across all sessions, the total number of physician days is 365 * $726/day which totals, $264,990.

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12 While there are other special meetings before and after the official meeting these were not included in these calculations.
RECOMMENDATIONS

General Recommendations

Our findings indicate that by using a traditional approach to cost management, the CMA has been significantly understating the cost of governance as well as the House of Delegates meeting and the Board of Trustees meetings quite significantly. The cost of governance has been under-costed by 253%, the House of Delegates meeting has been under-costed by 723.4% and the Board of Trustees meeting have been under-costed by 1074%. We recommend strongly that the CMA adopt an activity based costing approach to better manage governance costs.

To this end, the results of the employee time allocation survey have, and will, result in major benefits. First, the administration of the survey has already caused employees to think differently about how they spend time at work. For example, we have received feedback from employees stating that they much more cognizant of how they spend their time now. Second, many employees were unaware of just how much time they were spending in a particular activities such as the House of Delegates Meeting and working with the Board of Trustees.

A Preliminary ABC Model of Governance

To aid in the implementation of ABC, below we develop a preliminary ABC governance model that the CMA could use as a starting point. Appendix 2 outlines the procedure for developing the model. The model (Figure 1), divides overall CMA Governance Costs into the seven cost pools discussed earlier. Each pool has total costs associated with it as shown in Table 7. Costs in Table 7 are the result from the sum of costs derived from the current governance budget, an allocation of employee hours and costs and an allocation of operational support and administrative costs. Below this level, we use employee hours as the cost driver for each of these cost pools and then calculate cost/driver units below.

The cost per driver unit associated with each cost pool has many applications. For example, if a particular project that the Board of Trustees suggests the CMA undertake, executives can now more accurately assess what such a project will cost. For instance, in Figure 1, under the House of Delegates cost pool, the cost per driver unit is $103/hour. Thus, if a particular HOD project is expected to take 300 hours the cost of the project would be $30,900. Note that we have used employee hours as the sole cost driver at this stage. The driver is appropriate given the data at this point.

13 The operational support and administration allocation is calculated by multiplying the ratio of total employee dollars spent in each governance category (see Table 4) to the total employee salary budget ($8,002,694) by $2,480,613, the total cost of operational support and administration.
The seven cost pools that are tied into governance may also be collapsed into fewer pools. For instance, while councils and committees are an important cost pool, many of the initial costs associated with that pool were directly involved with either the HOD or BOT pools.

Ultimately, a full ABC model will provide even more accuracy once all major activities (including governance) are included. For example, currently, employee travel is allocated in a traditional fashion. In an ABC model, there would be a cost pool for travel whose costs would be allocated using a driver such as number of days of travel under each major activity.

Senior management and employees of the CMA appear to be ready to embrace a new method of cost management known as ABC costing. Application of the method will enable the CMA to more efficiently and effectively allocate costs to cost pools and hence projects.
Appendix 1
California Medical Association Survey

To Survey Participants:

Dustin Corcoran, CEO of the California Medical Association, has asked me to administer this survey related to how much time each of you spend in governance activities. The information collected will be used to provide a better understanding of how the CMA can better use its resources in furthering the goals of the organization. Governance is defined as “the system by which the association is directed and controlled.”

Within the CMA we have identified 7 major governance activities that are listed on the following page. What we would like you to do is to think carefully about what percentage of your time you spend in supporting each of these governance activities. Support can be defined as anything from attending and/or scheduling meetings and distributing materials, to researching and developing reports. Some examples include:

- Developing and formatting materials for inclusion in EC or BOT agenda packets, or that of another committee/TAC.
- Participating in a meeting of the Presidents’ Forum or other body identified above.
- Providing support to the House of Delegates by working in the AV booth, or the headquarters.
- Writing an analysis of a HOD resolution.
- Scheduling a conference call for the Council on Scientific Affairs.
- Researching cost related to implementation of an HOD resolution.
- Identifying and reporting on the status of strategic plan objectives.
- Initiating or responding to emails and phone calls of a governance nature.
- Soliciting physicians to serve on committees, councils and TACs.

We understand that you spend your time on other types of activities at the CMA but don’t consider these as you answer the questions on the next page.

Thank you for your participation.

Professor S. Mark Young
Marshall School of Business
University of Southern California
Los Angeles, CA 90089
CMA Governance Survey

For each of the activities below, please write down the number of hours that you spend annually on each activity. To provide you with some guidance, the work-week at the CMA is 35 hours per week (or 1820 hours per year) not including overtime. In order to complete the survey you must fill in every box including the one for your name. If you spend no time in a particular activity place a 0 in the box.

Example: If you spend a total of 100 hours of your time working on any aspect of the House of Delegates meeting, please write down 100 next to that category. If you don’t spend any time on any of these activities then you would put 0 in each box.

<table>
<thead>
<tr>
<th>Governance Activity</th>
<th>Percentage of Time You Spend in Supporting this Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>House of Delegates</td>
<td></td>
</tr>
<tr>
<td>Board of Trustees</td>
<td></td>
</tr>
<tr>
<td>Councils and Committees including those of the HOD (Speakers’ Advisory, Rules and Reference Committees, ad hoc committees) and BOT (EC, Finance, Noms, Audit, Bylaws, TACs, etc.)</td>
<td></td>
</tr>
<tr>
<td>Sections/Forums (MSS, RFS, YPS, OMSS, EMOS, VLGPF, SSGPF)</td>
<td></td>
</tr>
<tr>
<td>Subsidiary Organizations (e.g., CMA Properties, CMA Foundation, Institute for Medical Quality, Component Medical Society Services, LLC)</td>
<td></td>
</tr>
<tr>
<td>Affiliated Organizations (e.g., CALPAC, Component Medical Societies, CMA Alliance, Presidents’ Forum, Specialty Societies)</td>
<td></td>
</tr>
<tr>
<td>Internal Processes mandated by CMA Bylaws/corporate law such as elections, creation of the annual report, etc.</td>
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</tr>
</tbody>
</table>

About you:

Name: ________________________________

Email Address: ________________________________
Appendix 2
Breaking Governance Down by Activities – A Preliminary Costing Model of Governance at the CMA

In ABC Model Develop there are several key steps to follow. These are:

1. Define the Cost Pools
2. Assign Costs to the Pools
3. Determine the drivers for each pool
4. Measure aggregate activity units for the drivers
5. Divide costs (step 2) by driver units (step 4) to get cost per driver unit.
6. Measure driver units for each cost pool
7. The cost of a particular activity cost is the cost driver units (step 6 * the cost per drive unit (step 5) summed across all cost pools.

Applying this procedure to the data for the CMA shown in Figure 5B we arrive at the following results. Table 7 presents the data.

1. Define the Cost Pools – These are the 7 cost pools shown in Table 7.
2. Assign Costs to the Pools – There are three categories of costs, those from the budget, employee costs and operational support allocation.
3. Determine the drivers for each pool – We used employee hours as the cost driver. More than likely, once a full-blown ABC model is applied to all costs at the CMA, the budgeted costs will be allocated using other drivers as well as employee costs.
4. Measure aggregate activity units for the drivers – The aggregate activity units, or employee hours, are shown in Table 2.
5. Divide costs (step 2) by driver units (step 4) to get cost per driver. These shown in the last line of Table 7.
6. Measure driver units for each cost pool. The CMA can now use the cost per driver unit to cost out particular requests. Thus, every hour devoted to a project for the House of Delegates costs $103 per hour.
7. The cost of a particular activity cost is the cost driver units (step 6 * the cost per drive unit (step 5) summed across all cost pools. Thus, if a project for the HOD requires 300 hours the cost would be $30,900.
The Cost of Governance at the California Medical Association

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Leventhal School of Accounting
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July, 2012

S. Mark Young - Brief Biography

Professor of Accounting at the Leventhal School of Accounting, Marshall School of Business at USC. Joint appointments as Professor Management & Organization and Professor of Communication and Journalism (Annenberg School); also holds the George Bozanic and Holman G. Hurt Chair in Sports and Entertainment Business.

Taught and researched in the field of management accounting, cost management and entertainment business for 30 years. Published 40 papers and 6 books.


Consulted with and/or taught executives in organizations including: Texas Instruments, Chrysler, Warner Brothers, SANY (China), General Motors, StorageTek, AMGEN, British Airways, Nevada Power.
Questions To Be Addressed

CEO Dustin Corcoran asked me to address the following questions:

What is the cost of conducting the annual meeting of the California Medical Association?

What is the cost of conducting a typical meeting of the California Medical Association’s Board of Trustees?

What is the cost of governance in general for the California Medical Association?

What is the opportunity cost of physician time in attending the House of Delegates Meeting and serving on the Board of Trustees?

Main Results – Question 1
Cost of Governance Overall

Main Results:

What is the cost of governance in general for the California Medical Association?

• CMA's current budgeted costs: $1,445,536
• ABC approach: $5,106,413

The CMA is understating the cost of governance by 253%.
Main Results – Question 2
Cost of House of Delegates Meeting

Main Results:
What is the cost of conducting the House of Delegates meeting?

• CMA’s current budgeted costs for HOD meeting: $133,700
• ABC approach for HOD meeting: $1,101,914

The CMA is understating the cost of the House of Delegates meeting by 723.4%.

Main Results – Question 3
Cost of Board of Trustees’ Meetings

Main Results:
What is the cost of conducting a typical meeting of the California Medical Association’s Board of Trustees?

• CMA’s current budgeted costs for 4 meetings: $146,973
• ABC approach for 4 BOD meetings: $1,725,266

The CMA is understating the cost of the Board of Trustees’ meetings by 1074%.
Main Results – Question 4
Opportunity Costs for Physicians

Main Results:

What is the opportunity cost of physician time in attending the House of Delegates Meeting and serving on the Board of Trustees?

Opportunity Cost: The cost of an alternative that must be foregone in order to pursue a certain action:

- House of Delegates meeting: $1,633,500
- Board of Trustees meetings: $264,990

Explanation For the Differences in Methods

Current vs. ABC Method:

- The current method that the CMA uses to control costs is a traditional budgetary approach to cost management. A budget is determined and dollars are assigned to cost centers and categories. The method is appropriate for external reporting, but ineffective for internal decision-making.

- Activity based costing is an approach that takes all resources and their associated costs and assigns them to specific cost pools that can then be assigned to specific activities. A significant benefit to using ABC is that indirect (fixed) costs, such as the cost of employee resources like salaries and fringe benefits, payroll taxes and administration, and operational support and administrative costs can be allocated directly to cost pools using specific cost drivers. This method is very effective for internal decision-making.
**Explanation For the Differences in Methods**

- The current approach to budgeting for governance that the CMA uses leaves out many indirect costs such as employee salaries and operational support and administrative costs.

- Such indirect costs have to be included in any analysis as they provide the basis on which the organization functions.

**Costs Not Included by the CMA:**

- The CMA did have data on the amount of employee time spent in the governance function overall, but the allocations were estimated by supervisors. More importantly the data were not used in any analyses. The total cost of employee time based on supervisory estimates was $2,007,171 or 25.96% of total employee costs of $8,030,085 (See Table 1*).

*All Tables are contained in the main report.*

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**Explanation For the Differences in Methods**

**Costs Not Included by the CMA:**

- The CMA's budget also included indirect costs of $2,480,613 related to Operational Support and Administration (see 2012 CMA Budget, page d). A portion of these costs were not allocated to governance.*

- Using an ABC approach, both employee costs and Operational Support and Administration have to be allocated to governance in order to answer the first three questions accurately.

- To do this, we designed an employee survey to obtain an accurate assessment of how employees apportioned their working hours to governance activities. Further, we used these hours to allocate a portion of the Operational Support and Administration costs to governance.

*This total of both of these accounts is $2,788,433, however, it was determined in conversations with Lance Lewis, CFO, that $307,820 of this total was non-overhead and non-fixed costs so it was deducted to arrive at $2,480,613.*
The Employee Survey of Time Spent in Governance

We surveyed everyone in the organization using Survey Monkey, a leading web-based survey method, and asked each person how they spent their time across the 7 governance activities as determined by the CMA and received 100% response rate (See Appendix 1). The other governance activities include: the House of Delegates, Board of Trustees, Councils & Committees, Sections & Forums, Subsidiary Organizations, Affiliated Organizations and Internal Processes.

Each person allocated a specific number of hours based upon an 1820 hour work year (35 hours per week x 52 weeks). Governance is only one function of the CMA and thus only a proportion of the 1820 hours was allocated to governance activities.

Results:

Employees spend 34.83% of their time working in governance activities. From this 34.83%, 9.2% of their time working on House of Delegates activities and 10.0% of their time working on Board of Trustees activities.

*  

Question 1: Cost of Governance – Calculations

**ABC Costs** (See Tables 2, 3 and 4):

1. Budgeted costs from current budget: $1,445,536
2. Employee costs from survey ($8,030,085 * 34.83%): $2,796,879
3. Allocated indirect costs ($2,480,613 * 34.83%): $863,998
   Total $5,106,413

- **Current Method Costs:**

1. Budgeted costs from current budget $1,445,536

**Current and ABC method Difference:** $3,660,877

**Percentage Difference:** ($5,106,413 - $1,445,536)/$1,445,536

= 253%
**Question 2: House of Delegates – Calculations**

**ABC Costs** (See Tables 5A and 5B):

1. Budgeted costs from current budget: $133,700
2. Employee costs from survey ($8,030,085 * 9.20%): $738,998
3. Allocated indirect costs ($2,480,613 * 9.20%): $228,216
   
   **Total**: $1,101,914

- **Current Method Costs:**

   1. Budgeted costs from current budget $133,700
   
   **Current and ABC method Difference**: $968,214

**Percentage Difference**: ($1,101,914 - $133,700)/$133,700

\[= 723.4\%\]

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**Question 3: Board of Trustees Meetings– Calculations**

**ABC Costs** (See Tables 5A and 5B):

1. Budgeted costs from current budget: $146,973
2. Employee costs from survey ($8,030,085 * 10%): $803,836
3. Allocated indirect costs ($2,480,613 * 10%): $248,061
   
   **Total**: $1,725,266

- **Current Method Costs:**

   1. Budgeted costs from current budget $146,973
   
   **Current and ABC method Difference**: $1,578,293

**Percentage Difference**: ($1,725,266 - $146,973)/$146,973

\[= 1074\%\]

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Main Results – Question 3
Cost of Board of Trustees’ Meetings (continued)

Details:
The Board of Trustees meets four times a year under the schedule below. While a total of eight days are spent across the four meetings the number of actual hours differ depending on the specific meeting. The number of hours across the four meetings totals 40. Dividing the total cost of $1,739,991 by 40 hours is $43,500/hour.* Thus the cost for each meeting is as follows:

January - Two-day meeting, 15 hours total; $652,500
April - One-day meeting, 6 hours total; $261,000
July - One-day meeting, 9 hours total; $391,500
Annual Session - Four-day meeting, 10 hours total; $435,000

*The CMA requested that we do these calculations per actual hour spent in meetings rather than by the day.

Main Results – Question 4
Opportunity Cost of Physician Time

Details:
The Bureau of Labor Statistics reports that across all physicians the average daily salary is $726. See Table 6. This statistic does not include any other type of compensation or fringe benefits, and is thus understated, and conservative. Based on attendance numbers at the 2011 HOD Meeting and the number of members participating at Board Meetings, we arrive at costs below.

House of Delegates Meeting

Seven hundred and fifty physicians attended the 2011 meeting, which lasted for three days. Thus the total number of physician days is 2250 (750 physicians * 3 days) and the total cost is: 2250 physician days * $726/day or $1,633,500. This number and those for the Board of Trustees Meetings following, are conservative and do not include the amount of time that members devote to tasks related to these meetings, or to other, special meetings, that occur before and after the official meeting.
Main Results – Question 4
Opportunity Cost of Physician Time

Details:

Board of Trustees Meetings:

Four meetings are held each year under the following schedule:

- January - Two-day meeting; 48 physicians in attendance
- April - One-day meetings; 45 physicians in attendance
- July - One-day meeting; 44 physicians in attendance
- Annual Session - Four-day meeting; 45 physicians in attendance

Summing across all sessions, the total number of physician days is $365 \times 726/day$ which totals, $264,990$.

A Preliminary ABC Model for Governance

Details:

To aid in the implementation of ABC, below we develop a preliminary ABC governance model that the CMA could use as a starting point. Appendix 2 outlines the procedure for developing the model.

The model (Figure 1), divides overall CMA Governance Costs into the seven cost pools discussed earlier. Each pool has total costs associated with it as shown in Table 7.

Costs in Table 7 are the result from the sum of costs derived from the current governance budget, an allocation of employee hours and costs and an allocation of operational support and administrative costs. Below this level, we use employee hours as the cost driver for each of these cost pools and then calculate cost/driver units below.
A Preliminary ABC Model for Governance

Details:

The cost per driver unit associated with each cost pool has many applications. For example, if a particular project that the Board of Trustees suggests the CMA undertake, executives can now more accurately assess what such a project will cost.

For instance, in Figure 1, under the House of Delegates cost pool, the cost per driver unit is $103/hour. Thus, if a particular HOD project is expected to take 3 hours the cost of the project would be $309. Note that we have used employee hours as the sole cost driver at this stage. The driver is appropriate given the data at this point.

The operational support and administration allocation is calculated by multiplying the ratio of total employee dollars spent in each governance category (see Table 4) to the total employee salary budget ($8,002,694) by $2,480,613, the total cost of operational support and administration.

Figure 1
A Preliminary ABC Model for Governance at the CMA With Costs Included
Summary and Recommendations

Our findings indicate that by using a traditional approach to cost management, the CMA has been significantly understating the cost of governance as well as the House of Delegates meeting and the Board of Trustees meetings quite significantly.

- The cost of governance has been undercosted by 276.8%.
- The House of Delegates meeting has been undercosted by 724%.
- Board of Trustees meeting have been undercosted by 1084%.

We recommend strongly that the CMA adopt an activity based costing and budgeting approach to better manage governance costs as well as apply this approach across ALL activities of the CMA.

Governance is only one of a number activities of the CMA. Other activities include:

- Membership Outreach
- Direct Assistance to Members
- Economic Advocacy
- Access to Care
- CMA Alignment and Cooperation
- Quality Standards, Peer Review, Facilities
- Science and Public Health
- Professional Liability
Summary and Recommendations

A full ABC budgeting model involves breaking down each of these activities into cost pools, determining the amount of time employees spend in each of the activities and pools and then allocating all indirect costs of the organization to activities and pools. Ultimately, each cost pool would be assigned specific cost drivers so that once the cost driver units and cost per driver unit are established, more accurate costs of any activity can be determined.
RECOMMENDATION 10: That CMA Bylaws Chapter 13.00 be amended as follows (deletions struck through, additions underlined):

CHAPTER 13.00 DELEGATES AND ALTERNATES TO THE AMERICAN MEDICAL ASSOCIATION

13.01 CONSTITUENT ORGANIZATION STATUS OF CMA

The California Medical Association is a constituent organization of the American Medical Association, entitled to delegate representation in the AMA House of Delegates. The California Delegation to the American Medical Association shall represent the interests and policies of the California Medical Association and shall report regularly to the CMA Board of Trustees and House of Delegates.

13.02 DELEGATION COMPOSITION AND ELIGIBILITY

The California Delegation to the American Medical Association shall consist of:

a) Delegates elected by CMA districts.

b) A delegate and an alternate delegate elected by the CMA Medical Student Section.

c) A delegate and an alternate delegate elected by the CMA Young Physicians Section pursuant to Section 13.0303 of these Bylaws.

d) Delegates and alternate delegates appointed at large by the Board of Trustees.

e) The President and the President-Elect.

Each district shall be entitled to elect one (1) delegate. The Medical Student Section shall be entitled to elect one (1) delegate and one (1) alternate delegate. The Young Physicians Section each shall be entitled to elect one (1) delegate and one (1) alternate delegate pursuant to Section 13.0303 of these Bylaws. The remaining delegate and alternate seats to which the California Delegation is entitled shall be filled at large through appointment by the Board of Trustees of nominees submitted by the Committee on Nominations. Two of the delegate or alternate delegate seats to which the California Delegation is entitled shall be filled by the President and President-Elect. If the President or the President-Elect has not been elected as a delegate by a district, they shall be assigned an at-large seat.

Delegates and alternates to the House of Delegates of the AMA shall be elected in accordance with the Constitution and Bylaws of that organization, and as these Bylaws shall further specify. Notwithstanding any other provision of these Bylaws, only members of this Association who are members of the AMA shall be eligible to be nominated, elected or appointed as a delegate or alternate to the AMA.
13.03 METHODS OF ELECTION

13.0301 CMA District Elections

Except as provided in Section 13.0303, these delegates and alternates shall be elected, based on distribution related to CMA districts, so that each CMA district shall be entitled to elect one (1) delegate/alternate for each one thousand (1,000) members of the AMA, or major fraction thereof, within said district. In the event that this Association is entitled to a greater or lesser number of delegates/alternates than it has had in the preceding year, those seats shall be allocated on the basis set forth above, with those seats assigned to the districts which most nearly achieve the requisite AMA membership of one thousand (1,000) members or major fraction thereof, per delegate/alternate. Each CMA district shall be assigned a specific number of delegates and alternates entitled to elect one (1) delegate and the membership within the district shall decide how the election is to be held, either by the CMA district delegation or by popular vote (local option).

13.03011 Cost of Election

In any district composed of more than one component society wherein the members directly elect delegates and alternates, the Speaker of this Association shall be responsible for the conduct of the such elections. The Speaker shall provide each duly nominated candidate with the names and addresses of members residing in said district. Each component society within such district shall bear its proportionate share of the cost of such election, according to the number of members of said society amongst all members within said district.

13.03012 Election in Districts Wholly Contained Within the Boundaries of One Component Medical Society

In those CMA districts wholly contained within the boundaries of one component medical society, the component society shall provide in its Bylaws for the manner of election of such its AMA delegates and alternates as the members within such CMA district or districts are entitled to elect. In any case, the Bylaws must permit nomination by and of any member in good standing entitled to vote as to such office, and for election by majority vote. Any such district entitled to elect more than one AMA delegate or alternate may apportion such offices between or amongst sub-districts. Vacancies in office shall be filled in such manner as the Bylaws of such component society may provide.

13.03013 Optional Method of Election in Districts Composed of More Than One Component Medical Society

Upon the petition of a majority of members in a district composed of more than one component medical society, by written ballot or petition filed with the Association headquarters at least ninety (90) days prior to the meeting of the House at the Annual Session thereof, may provide for the direct election of the district’s AMA delegates and alternates may be provided for. In any district selecting such option, the delegates to this Association shall caucus within
twenty-four (24) hours after the Annual Session of the House of Delegates of this Association is convened. At such caucus, the eligible delegates in such district shall by secret ballot and majority vote, nominate for the office one (1) or more eligible members in good standing residing in said district for each office. These nominations shall be announced at the meeting of the House. Thereafter, any eligible member in good standing residing in said district may be nominated by ten (10) eligible members by written nomination delivered to the headquarters office of this Association no later than thirty (30) days after the adjournment of the Annual Session of this Association. Such nomination shall be accompanied by the nominee’s written acceptance thereof. In the event that only one member has been nominated for any office, the Speaker shall certify the election by acclamation. As to any office for which more than (1) one candidate has been nominated, the Speaker of this Association will cause ballots to be mailed to each eligible member in the district no later than sixty (60) days after the adjournment of the Annual Session, and those ballots which are returned to the headquarters office within fifteen (15) days thereafter shall be counted. Election shall be by majority vote, and in the event that no candidate has a majority, a second election shall be conducted within thirty (30) days between the two (2) candidates receiving the highest number of votes.

13.03014 Procedure for Alternative Methods of Election

In those CMA districts which are composed of more than one (1) component medical society, and which are entitled to elect more than one (1) AMA delegate and more than one (1) alternate, the societies may apportion such offices on any basis established by the adoption of identical bylaw provisions by each of the societies within the district. If any office is to be filled by election in more than one (1) society, then those societies entitled to elect the delegate or alternate shall also adopt identical provisions governing such election, and the filling of vacancies. Otherwise, election and the filling of vacancies shall be pursuant to the Bylaws of the component society solely entitled to elect said delegate or alternate. In any case, the Bylaws must permit nomination by and of any member in good standing entitled to vote as to such office, and for election by majority vote.

13.03015 Election in Districts Not Desiring Direct Election

In any district which has not acted to select one (1) of the methods above specified for the direct election of its delegates and alternates to the AMA, the eligible delegates from the district to the House of Delegates of this Association shall elect an eligible members from the district to fill those offices—the office. Within twenty-four (24) hours after the Annual Session of the House of Delegates is convened, the eligible delegates from those districts which have not selected a method of direct election shall separately meet. At such caucus the delegates shall, by nomination, secret ballot and majority vote of the eligible delegates present, elect eligible members from such district for each the ensuing term. The delegates of said district may at such time by majority vote thereof, authorize and permit alternate delegates to vote. The Chair of the district delegation shall then report at the meeting of the House of Delegates of this Association the results of the election. The time and place of the caucus of each district delegation shall, in the absence of unanimous written consent by the delegates to this
Association from the district fixing time and place, be fixed by the Speaker and announced on the first day of the meeting of the House of Delegates of this Association at each Annual Session. In the event that at any district caucus no one (1) person receives a majority vote after repeated ballots, the Chair of the caucus shall report such fact at the second meeting of the House of Delegates of this Association and shall also report the names of all nominees to such office submitted to the caucus, whereupon the eligible delegates in the House of Delegates shall proceed to elect from such nominees to fill the office assigned to such district.

13.0302    Election by Medical Student Membership

The CMA Medical Student Section (CMA-MSS) shall be entitled to one (1) AMA delegate and one (1) alternate delegate. The Governing Council of CMA-MSS shall establish the method for the election. The method established must permit nomination by any active medical student member in good standing. In the event that a member of the delegation to the AMA-MSS is unable to attend a meeting of the AMA-MSS Assembly, the Chair of the delegation to the AMA-MSS, in consultation with the CMA-MSS Chair, may designate a substitute to serve at that meeting on behalf of the absent delegation member. Such substitute shall serve only for the duration of the meeting from which the regular delegation member is absent.

13.0303    Young Physicians Section Delegate to AMA

Beginning in 1989 the Young Physicians Section shall be assigned the next unallocated seat on the delegation, and thereafter at least one member of the Delegation shall be a Young Physicians Section member. The Young Physicians Section Assembly shall establish a method for the election of the delegate and alternate delegate and a method for filling any vacancies in office. The method of election and for filling vacancies shall become effective upon approval of the Board of Trustees.

13.0304    Vacancies

Except as provided in Section 13.03012, in the event that any office of delegate or alternate to the AMA that has been elected by a district shall becomes vacant, said vacancy shall be filled by the district delegation in said district, which shall caucus at a time and place fixed by its Chair and shall, by nomination, secret ballot and majority vote of the eligible delegates present, elect an eligible member from such district to fill the remaining term. The Chair shall notify the Speaker of this Association of the time and place of said caucus no later than thirty (30) days prior thereto, and the Speaker shall cause written notice thereof to be mailed to each member of the district delegation no less than fifteen (15) days prior thereto, unless this requirement is waived by each member of the district delegation.

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