

EXECUTIVE SUMMARY

The Office of the Internal Auditor (OIA), along with representatives of the Division of Medical Assistance and Division of Mental Health/Developmental Disabilities/Substance Abuse Services met with Cardinal Innovations Healthcare Solutions (Cardinal) personnel on October 30, 2017. During the meeting, Cardinal described actions taken to meet the findings and recommendations noted in the Office of the State Auditor's performance audit report released on May 17, 2017 (PER-2017-4445). Cardinal also provided additional documentation requested by OIA in support of its additional procedures outlined in its Interim Investigative Report and Interim Follow-Up Assessment released October 2, 2017.

Based on discussions and the documentation provided, OIA determined the following items warrant the immediate update to DHHS management:

1. CEO Compensation

- Total calculated compensation for FY2017 was \$1,191,671.

Salary Type	Amount
Base Salary	\$635,000
Bonus	\$254,000
Other (PTO payout ¹ , 401k contributions, auto allowance)	\$302,671
Total FY2017	\$1,191,671

¹ – PTO payout of \$259,754 is detailed below

- Effective July 1, 2017, Cardinal reduced the CEO's base salary to \$400,000. Within 90 days of the reduction, the CEO provided written notice to Cardinal that the change in salary constituted grounds for resignation with "Good Reason" and requested the Board restore the full salary retroactive to July 1, 2017. During the September 16-17, 2017 meeting, the Board of Directors voted to "cure the event" and reinstate the base salary of \$635,000. Therefore, on September 30, 2017, the CEO was paid a retro amount of \$48,958.32 to compensate for the three months in which the base salary was reduced. , As of the October 15, 2017 payroll end date, the CEO base salary was returned to \$635,000. On October 17, 2017, Cardinal's Board of Directors voted to reduce the salary of the CEO to \$204,195, the maximum amount specified by the Office of State Human Resources. OIA has received documentation to confirm the salary reduction.

2. CEO Severance Package

Section 7 of the CEO's Executive Employment Agreement (Agreement) defines seven different categories of the CEO's termination of employment with Cardinal. Two of the options include:

- **Category #1** - Based on the CEO's resignation for "Good Reason", Section 7.4 (a)(i) of the Agreement defines one "Good Reason" as a reduction of 25% or more in the executive's base salary.
 - Per reason #1 in the Agreement, the CEO would receive 12 months of base salary and reimbursement of the cost of the executive's health insurance under COBRA for a maximum of 12 months as severance.
- **Category #2** - Based on the CEO's termination under the "change of control" clause, Section 7.7 of the Executive Employment Agreement as defined by Section (a)(iii), if a majority of directors of the Board are replaced during any twelve-month period by directors whose appointment of election is not endorsed by a majority of the Board before the date of appointment or election. In addition, Section (b) states the CEO's employment must be terminated within 24 months of the change of control in one

of the following ways: by non-renewal of the Agreement, by the Company without cause, or by the CEO for “Good Reason.”

- Per reason # 2 in the Agreement, the CEO is entitled to 24 months of base salary and reimbursement of the cost of the executive’s health insurance under COBRA, for a maximum of 18 months as severance.

3. Other Compensation and Bonus Payments

- Cardinal adopted a new Paid-Time-Off (PTO) policy effective January 1, 2017. The previous vacation policy provided for vacation time subject to a maximum of 240 hours. The previous sick leave policy provided for an unlimited accumulation of sick leave with a prescribed payout to employees at retirement. The new PTO policy does not differentiate between vacation and sick days and prescribes a maximum annual carryover of five PTO days. Cardinal approved a one-time cash out for all employees on their earned but not taken leave. The leave payout was made to employees on February 15, 2017. The amount paid to the CEO was based on a salary of \$635,000.

Cardinal Staff	Payout Amount
CEO	\$259,754
10 other Executives/Senior Staff	\$436,176
Total FY2017	\$695,930

- On June 30, 2017, Cardinal paid out FY2017 bonuses to employees. The total bonus compensation paid to the CEO, plus ten other Cardinal executives and senior staff members was \$1,130,213.
- Cardinal approved a one-time relocation expense payment for all employees required to work from the corporate office in Charlotte but which lived beyond a typical commuting distance. The relocation expense payments were tiered based on the level of the employee and were paid on August 15, 2017. Employees were not required to move to Charlotte, but the one-time payment would serve to cover future travel and lodging expenses if the employee chose to continue to live in their current location. Prior to this relocation expense payment, employees had been able to claim hotel expenses for reimbursement when they commuted to work in the Charlotte office. Four executives and/or senior staff members received relocation expense payments totaling \$139,126.

4. Board of Directors Expenses

- During FY2017, Cardinal hosted a Board of Directors retreat in Charleston, South Carolina at a cost of \$95,987. Cardinal’s Board of Directors passed a resolution on September 16, 2017 to hold the company’s FY2018 Board Retreat at the corporate office in Charlotte.
- During FY2017, Cardinal continued to hold Board of Directors meetings at off site locations. Four separate meetings were held at the Carolina Inn in Chapel Hill and the Ballantyne Hotel in Charlotte. The total cost of the FY2017 board meetings was \$55,294. Cardinal’s Board of Directors passed a resolution on September 16, 2017 to hold Board meetings at the company’s corporate offices in Charlotte, effective July 1, 2017.
- In December 2016, Cardinal hosted a holiday party at the Ballantyne Hotel in Charlotte at a cost of \$34,114.