



STATE OF NORTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER  
GOVERNOR

November 27, 2017

MANDY COHEN, MD, MPH  
SECRETARY

Dear Members of the Joint Legislative Oversight Committee on Health and Human Services and Medicaid:

I wanted to update you about actions DHHS intends to take today with regards to Cardinal Innovation.

As you have likely read in the press, the CEO and Board at Cardinal Innovations have acted unlawfully regarding executive team compensation and severance payments. The Office of State Auditor and DHHS audit have both found Cardinal's compensation structure to be inappropriate. Despite explicit instructions to the Cardinal Board of Directors regarding the lawful management of public funds, exorbitant severance was paid to the CEO and senior executives totaling \$3.8 million.

DHHS has concluded that we can no longer rely on the Board and executive leadership at Cardinal Innovations to bring Cardinal into compliance with its legal requirements. Due to this continued serious financial mismanagement and Cardinal's noncompliance with the law, I intend, pursuant to NCGS § 122C-115.4(e), to temporarily remove all LME functions from Cardinal Innovations.

Over the last several days I have consulted directly with the Chairs of the Joint Legislative Oversight Committee on Health and Human Services and the Joint Legislative Oversight Committee on Medicaid and Health Choice and they have offered their full support. I appreciate our ongoing partnership as DHHS takes these next steps to return the focus of Cardinal to those that they serve.

During this interim period, DHHS staff will be on site at Cardinal Innovations and will work closely with interim CEO, Trey Suttan, and other Cardinal staff to manage and stabilize the organization, hire additional executive team members, and develop a corrective action plan to bring Cardinal into compliance with all applicable laws. During the time that LME functions are temporarily removed from Cardinal's direct control, DHHS will be responsible for authorizing all financial transactions. Executive leadership who are in the process of leaving the organization (including former CEO Richard Topping) will not be permitted on the premises of Cardinal during this time.

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In addition to temporarily assuming control of the organization, DHHS has determined that the structure of the Cardinal Innovations Board of Directors is not in the best interest of consumers or the counties that Cardinal serves. DHHS has revoked approval of the current board composition effectively immediately, which means that the prior Board has no authority to take any further action. DHHS and County Commissioners in the Cardinal catchment area will appoint new board members in compliance with the statutory requirements of NCGS 122C-118.1 by December 15, 2017.

Please let me know if you have further questions. I will be in touch once this action has been taken. I would appreciate your help in keeping this communication confidential until that time.

Thank you for your ongoing support of the Department's work and those we serve.

Sincerely,



Mandy Cohen, MD, MPH  
Secretary