



**Type of Policy: (System-Wide)**

**POLICY TITLE: CONFLICTS OF INTEREST (C5410)**

**Effective Date: June 14, 2022** (Previous Version Date: May 30, 2019)

**PURPOSE:** As a tax-exempt entity, it is important that Children’s Hospital of The King’s Daughters Health System (CHKDHS) have an effective policy for dealing with conflicts of interest that may arise for officers, members of the CHKDHS Board of Directors and Board Committees, key employees, employees (other than key employees), the Professional Staff, and substantial donors (such individuals are sometimes collectively referred to in this Policy as “Interested Persons”). It is also in the best interest of patient safety and quality of care that CHKDHS have an effective policy for dealing with conflicts of interest that may arise for physicians with direct or indirect compensation arrangements with vendors providing goods or services to CHKDHS. CHKDHS is committed to avoiding such conflicts of interest and adhering to the policies and procedures as set forth below.

Examples of such conflicts of interest include the following:

- CHKDHS wishes to enter into an agreement with a physician group and one of the members of the group is a member of the CHKDHS Board of Directors.
- A CHKDHS employee who owns 20% of a company that CHKDHS wishes to engage to provide laundry services to the Hospital.
- The spouse of a member of CHKD’s Professional Staff is the landlord of a medical office building in which CHKDHS wishes to rent space.
- CHKDHS wishes to do business with a firm involving a material transaction and an officer of that firm was a former member of the CHKDHS Board of Directors.
- A vendor offers to pay for a CHKDHS employee to attend a conference to learn about a new product and offers to pay all travel expenses.
- A physician employed by Children’s Surgical Specialty Group, Inc. (CSSG) is a member of an advisory board of a medical equipment manufacturer from which CHKD purchases equipment and supplies.

Conflicts such as these can lead to excess benefit transactions, private benefit, or private inurement that violate Internal Revenue Service (IRS) regulations and can lead to intermediate sanctions (monetary sanctions against CHKDHS and/or the Interested Party) and revocation of CHKDHS’ tax-exempt status under IRS regulations. Also, conflicts such as these can lead to a breach by an individual of his or her duty to the organization to maintain the organization’s interests above the individual’s interests in selecting vendors and engaging in transactions involving the organization.

The purpose of the conflicts of interest policy is to establish a process to ensure the organization’s interest is protected when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer, director, key employee, or an employee (other than a key employee) of the organization or a substantial contributor to the organization.

**POLICY:**

The organization is prohibited from entering into any transaction in which Interested Persons or their family members have a direct or indirect financial interest unless the transaction is authorized, approved, or ratified as required under this policy. The procedure set forth in this policy is designed to conform to IRS requirements for obtaining the rebuttable presumption of reasonableness with regard to transactions entered into by the organization.

If the transaction or a related series of transactions contemplated requires Children’s Health System (CHS) Board approval under *Corporate Policy #C5102 Authority to Enter Into Agreements, Authorize Accounts Payable Payments, and Make Fiscal Obligations on the Health System* (a “Board Approved Transaction”),

then the procedure set forth below shall be carried out by the CHKDHS Board of Directors and the transaction shall be approved by a majority of the members of the CHKDHS Board of Directors who have no direct or indirect interest in the transaction.

If the transaction or a related series of transactions does not require CHS Board approval under *Corporate Policy #C5102 Authority to Enter Into Agreements, Authorize Accounts Payable Payments, and Make Fiscal Obligations on the Health System* (a "Normal Course Transaction"), then the procedure set forth below shall be carried out by the Compliance Committee under the direction of the CHKDHS Compliance Officer. This policy is intended to supplement but not replace any applicable state laws governing conflicts of interest applicable to non-profit and charitable organizations.

CHKDHS management, including the Purchasing Department and all other applicable departments involved in the purchasing of equipment, supplies, or services or the execution of contracts on behalf of CHKDHS shall follow the procedures set forth below with regard to such purchases and contracts if a conflict of interest has been identified.

#### **PROCEDURE:**

1. Duty to Disclose; Annual Conflict of Interest Disclosure; Contract Proponent Disclosure.

(a) Duty to Disclose. An Interested Person must disclose the existence and nature of any actual or potential Conflict of Interest to the CHKDHS Compliance Officer, in the case of a Normal Course Transaction, or to the Chair of the CHKDHS Board of Directors, in the case of a Board Approved Transaction.

(b) Conflict of Interest Disclosure. Prior to joining the CHKDHS or a subsidiary Board of Directors or prior to employment or promotion, as applicable, and on an annual basis thereafter, each member of the applicable Board of Directors, each officer, each key employee, each Director-level employee, each Pharmacist, Purchasing Department and Information Services personnel responsible for directing purchasing decisions, and applicants and recipients of grant funds of CHKDHS and its subsidiaries is required to complete a Conflicts of Interest Disclosure Statement, on a form designated for such purpose (the "Annual Disclosure Statements"). Each member of the applicable Board of Directors, officer, key employee of CHKDHS and its subsidiaries, director-level employee, Pharmacist, and Purchasing Department and Information Services personnel responsible for directing purchasing decisions shall disclose such conflicts of interest in accordance with the then current process. The Compliance and Internal Audit Department shall provide a summary of the identified potential conflicts of interest to the Finance Department and the Legal Department. Applicants and recipients of grant funds within CHKDHS shall disclose such conflicts on a form designated for such purpose in accordance with System-Wide Policy C5433, Grants from Outside Organizations and Agencies and Children's Health System Grant Funding of Projects - Research. Each individual required to complete a Conflict of Interest Disclosure form hereunder shall provide written notice immediately regarding any new conflicts and/or needed modifications to any existing disclosure form.

(c) Contract Proponent Disclosure. In accordance with System-Wide Policy C5408, Review, Execution, Administration and Retention of Contractual Agreements, each individual within CHKDHS who submits a request for review (each a "Contract Proponent") shall certify on the Contract Review Request Form that such Contract Proponent is not aware of any apparent, actual, or potential conflict of interest regarding such contract request. Disclosures of any such conflicts of interest by a Contract Proponent shall be reported by the Legal Department to the CHKDHS Compliance Officer.

(d) Potential Conflict of Interest Identification Tool. On an annual basis, the CHKDHS Compliance Officer will develop and circulate to applicable department team members a Potential Conflict of Interest Identification Tool which lists the companies and organizations identified in the Annual Disclosure Statements. In the event CHKDHS is contemplating a transaction with a company or organization listed in the Potential Conflict of Interest Identification Tool, the Purchasing Department Director will provide notice

of such to the CHKDHS Compliance Officer and the Compliance Officer will take appropriate steps to take all actions required under the Policy.

2. Procedure for Addressing Potential Conflicts of Interest in Board Approved Transactions.

(a) The Chair of the CHKDHS Board of Directors shall, as appropriate, appoint a disinterested person or committee, or direct management, to investigate and present to the CHKDHS Board of Directors alternatives to the proposed transaction or arrangement.

(b) The person, committee, or management representatives designated by the Chair of the CHKDHS Board of Directors shall present to the CHKDHS Board of Directors comparability data regarding alternate transactions or arrangements in order for the CHKDHS Board of Directors to exercise a thorough due diligence review to determine the most advantageous transaction or arrangement for the organization. The CHKDHS Board of Directors may require independent outside experts to be retained in a consulting capacity as it deems appropriate. The CHKDHS Board of Directors may require a reasoned opinion letter, as it deems appropriate opining with regards to the fair market value and commercial reasonableness of the proposed transaction.

(c) The Interested Person shall not receive any information related to the transaction or arrangement received by independent CHKDHS Board of Directors members and will recuse themselves from all meetings and discussions by the Board related to the transaction or arrangement. The Interested Person is permitted to make a presentation to the CHKDHS Board of Directors.

(d) The CHKDHS Board of Directors shall determine the transaction or arrangement that is in the organization's best interest and for its own benefit and which is fair and reasonable to the organization and shall direct management to enter into such transaction or arrangement in conformity with such CHKDHS Board of Directors' determination.

3. Procedure for Addressing Potential Conflicts of Interest in Normal Course Transactions.

(a) The CHKDHS Compliance Officer shall, as appropriate, appoint a disinterested person or a subcommittee of the Compliance Committee to investigate alternatives to the proposed transaction or arrangement.

(b) The designated disinterested person or the designated subcommittee shall review comparability data regarding alternate transactions or arrangements in order to exercise a thorough due diligence review to determine the most advantageous transaction or arrangement for the organization. Independent outside experts may be retained in a consulting capacity as deemed appropriate. A reasoned opinion letter may be obtained, as deemed appropriate, opining with regard to the fair market value and commercial reasonableness of the proposed transaction.

(c) If the Interested Person is a member of the Compliance Committee, such interested Person will recuse himself or herself from all meetings and discussions by the Compliance Committee related to the transaction or arrangement.

(d) After exercising due diligence, the Compliance Committee shall determine the transaction or arrangement that is in the organization's best interest and for its own benefit and that is fair and reasonable and shall direct management to enter into the transaction or arrangement in conformity with such determination.

(e) If the CHKDHS Compliance Officer is involved in a Conflict of Interest, the CHKDHS President may designate an alternate member of management to implement this Policy or may refer the matter to the CHKDHS Board of Directors to implement this Policy.

#### 4. Violations of the Conflicts of Interest Policy.

(a) If the Chair of the CHKDHS Board of Directors or the CHKDHS Compliance Officer, as applicable, has reasonable cause to believe that an individual has failed to disclose actual or potential Conflicts of Interest, he or she shall inform the individual of the basis for such belief and afford the individual an opportunity to explain the alleged failure to disclose.

(b) After hearing the response of the individual and making such further investigation as may be warranted under the circumstances, if the Chair of the CHKDHS Board of Directors or the CHKDHS Compliance Officer, as applicable, determines that the individual has in fact failed to disclose an actual or potential Conflict of Interest, he or she shall take appropriate corrective action. For Board Approved Transactions, the determination of the Chair of the CHKDHS Board of Directors shall be referred to the CHKDHS Board Governance Committee for review and action. For Normal Course Transactions, the determination of the Compliance Officer shall be referred to the Vice President of Human Resources for review and action.

(c) All violations or suspected violations of this Policy or the CHKDHS Compliance Program must be reported to the Chair of the CHKDHS Board of Directors in regard to Board Approved Transactions and to the CHKDHS Compliance Officer in regard to Normal Course Transactions. Violations may require corrective action up to and including termination of employment for employees engaged in activity prohibited under this Policy and removal from the CHKDHS Board of Directors for directors engaged in activity prohibited under this Policy. The organization may also pursue such other actions permitted under applicable law to protect its interests.

#### 5. Records of Proceedings.

(a) For Board Approved Transactions, minutes of each CHKDHS Board of Directors meeting at which the transaction or arrangement is discussed shall be retained in the organization's permanent records and such minutes shall reflect in detail the due diligence process followed by the CHKDHS Board of Directors in reviewing comparability data, the advice of outside consultants, the reasoned opinion letter, and such other information accessed by the CHKDHS Board of Directors in making its determination. Such minutes shall also reflect that the Interested Person recused himself or herself from such meetings.

(b) For Normal Course Transactions, the CHKDHS Compliance Officer shall report in his or her quarterly report to the CHKDHS Board Compliance Oversight Committee the names of the persons who disclosed or otherwise were found to have an actual or potential Conflict of Interest, the nature of any potential Conflict of Interest, any action taken to determine whether an actual Conflict of Interest was present, the decision whether a Conflict of Interest, in fact, existed, the names of the persons who were present for discussion, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and the final determination. Such report shall be included in the minutes of the CHKDHS Board Compliance Oversight Committee retained in the organization's permanent records.

#### 6. Requirements Applicable to Compensation Committees.

A voting member of any committee whose jurisdiction includes compensation matters (i.e., the Executive Compensation Committee of the CHKDHS Board of Directors) and who receives compensation, directly or indirectly, from the organization for services is precluded from voting on matters pertaining to that member's compensation, including compensation specific to an executive in a position to review requests for proposals and/or make recommendations related to the member's industry.

#### 7. Requirements Applicable to For-Profit Entities Owned, Controlled, or Partially Owned or Controlled by Children's Health System, Inc. (CHS), a CHS Subsidiary, or a Subsidiary of a CHS Subsidiary (each a "CHS Entity").

(a) An individual serving as a board member, officer, or employee of a CHS Entity who has been nominated to serve as a board member, officer, or director of, or who is considering investing in a for-

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profit entity owned, controlled, or partially owned or controlled by a CHS Entity (a “Related For-Profit Entity”), shall disclose such fact in accordance with the procedures set forth in this Policy. Following such disclosure, a determination will be made in accordance with the procedures set forth in this policy whether it is in the best interest of a CHS Entity for such individual to serve as a board member, officer, or employee of, or investor in, a Related For-Profit Entity. If it is determined that permitting such arrangement is in the best interest of a CHS Entity, such arrangement may be permissible under this Policy, subject to the establishment and maintenance of an appropriate conflict of interest management plan monitored by the CHKDHS Compliance and Internal Audit Department. Such conflict of interest management plan shall include appropriate provisions related to the identification of conflicts of interest between any CHS Entity and the Related For-Profit Entity and appropriate recusal from participation and voting on any matters subject to a conflict of interest.

(b) To the extent any board member, officer, or employee of CHS or a CHS subsidiary serves in a board member, officer, or employee role for a Related For-Profit Entity, under no circumstances shall such individual be entitled to receive any compensation or remuneration from such Related For-Profit Entity for or related to such service, including, without limitation, any remuneration under a stock option or other incentive equity plan. De minimus in-kind remuneration related to the individual’s service to the Related For-Profit Entity (such as meals provided during board meetings) and/or appropriate reimbursement for reasonable expenses (such as reasonable travel expenses) related to the individual’s service to the Related For-Profit Entity are permitted.

(c) As applicable, the requirements of this Section shall apply to the family members of any board member, officer, or employee described in this Section.

#### **REQUIREMENTS APPLICABLE TO PHYSICIANS REGARDING FINANCIAL RELATIONSHIPS WITH OUTSIDE VENDORS:**

1. Annual Reporting of Physician Financial Relationships. On an annual basis, each physician serving on the CHKDHS or any subsidiary Board of Directors, each physician serving as a medical director for CHKDHS or any CHKDHS subsidiary, and each physician employee of any CHKDHS subsidiary shall disclose in accordance with the then current process to the Director of Compliance and Internal Audit in consultation with the Vice President of Physician Practice Management (PPM), on a form designated for such purpose, any and all relationships between such physician, or any Family Member of such physician, and any vendor or potential vendor of any CHKDHS subsidiary, including, without limitation, any ownership, investment, or compensation arrangements between the vendor and the physician or family member of such physician (each hereinafter referred to as a “Physician Financial Relationship.”). The physician shall provide notice immediately to the CHKDHS Compliance Officer regarding any new, or modifications to any existing, Physician Financial Relationships.
2. Applicability of Conflict of Interest Procedure. To the extent any physician with a Physician Financial Relationship serves in a medical director position or is otherwise in a position to direct purchasing or the placement of any of the organization’s contracts for the purchasing of equipment, supplies, or services, and a transaction is contemplated which will involve any vendor with which such physician has a Physician Financial Relationship, prior to the consummation of such transaction, the physician shall give notice of the transaction to the Vice President of PPM. The Vice President of PPM shall refer the potential conflict to the Chair of the CHKDHS Board of Directors or the CHKDHS Compliance Officer, as appropriate, in order that the procedures set forth above shall be followed with regard to such transaction. The Purchasing Department and all other applicable departments involved in the purchasing of equipment, supplies, or services shall follow the procedures set forth above with regard to such purchases if a Physician Financial Relationship has been identified.

#### **CONFLICTS OF INTEREST INVOLVING RESEARCH:**

Disclosure and management of conflicts of interest involving research are detailed in the *Policy #C1108, Public Health Services Funded Research- Financial Conflicts of Interest*.

## DEFINITIONS:

1. Conflict of Interest. A Conflict of Interest is defined as any business or personal involvement by an officer, member of the CHKDHS or any subsidiary Board of Directors, key employee, employee (other than key employee), Professional Staff member, substantial donor, or a family member of any of these Interested Persons that may conflict with such Interested Person's responsibilities to the organization. Examples of conflicts of interest include the following:

(a) Outside Interests and Activities. Transactions with the organization in which the Interested Person or his or her family member has an interest. An Interested Person is considered to have an "interest" in a business transaction if the person: (1) has a material financial interest in it; (2) has a material financial interest in any organization involved in the proposed transaction; or (3) holds a position as trustee, director, general manager, or principal officer in any such organization. A person has a "financial interest" if the person has, directly or indirectly, through business, investment or a family member:

(i) an actual or potential material ownership or investment interest in any entity with which the organization has or is contemplating a transaction or arrangement, or

(ii) an actual or potential compensation arrangement with the organization or with any entity or individual with which the organization has or is contemplating a transaction or arrangement.

As a general rule, an ownership or financial interest is "material" if the interest exceeds five percent (5%) of the capitalization of the outside concern or five percent (5%) of the Interested Party's or Person's net worth, whichever is less.

(b) Competition with the Organization. A Conflict of Interest may include (i) competing either directly or indirectly with the various health services, products, or plans offered by the organization, or (ii) serving as a director or rendering managerial or consulting services to any outside concern that directly competes with the services of the organization.

(c) Gifts and Entertainment. Accepting gifts, entertainment, or other favors from any outside concern or person which does or is seeking to do business with or is a competitor of the organization under circumstances from which it might be inferred that such action was intended to influence or possibly would influence the Interested Person in the performance of his or her duties to the organization. Excepted are items of nominal or minor value or social entertainment unrelated to any particular transaction or activity of the organization.

(d) Use/Disclosure of Inside Information or Use of Position to Influence Decision-Making. A director, officer, or key employee discloses or uses information relating to the business of CHKDHS or any of its subsidiaries or uses or attempts to use the influence of his or her position to influence the organization's decision-making for the personal profit or advancement of the director, officer, or key employee or his or her immediate family member, or for any other reason unrelated to performing corporate duties.

2. Family Member. The officer, member of the CHKDHS or any subsidiary Board of Directors, key employee, employee (other than key employee), the Professional Staff member, and the substantial donor and his or her spouse, each of their parents and stepparents, each of their children, each of their siblings and step-siblings, each of their grandparents, each of their grandchildren, and the spouses of any of these individuals.

3. Interested Person(s). The officer, member of the CHKDHS or any subsidiary Board of Directors, key employee, employee (other than key employee), Professional Staff Member, and any substantial donor.

4. Key employee. Generally, a key employee is an employee who exercises substantial control within the organization or over a discreet function of the organization. The CEO, CFO, and all Senior Vice Presidents, Vice Presidents, and Directors of the organization are deemed to be key employees. Any other

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employee whose compensation, including benefits, from the organization is less than the compensation amount referenced for a highly compensated employee in Section 414(q)(1)(B)(1) of the Internal Revenue Code is not a key employee.

5. Substantial donor. A substantial donor is any person or entity that has contributed more than two percent (2%) of the annual contributions received by the organization in any of the five (5) years preceding the year in which the transaction is occurring.

**INDIVIDUALS REVIEWING:**

John P. Harding	Chief Operating Officer
Dennis M. Ryan	Senior Vice President Finance/Chief Financial Officer
Amy Sampson	Senior Vice President Chief Engagement and Innovation Officer
Paul J. Morlock	Vice President Human Resources/Occupational Health Management
Kathryn J. Abshire	Vice President Finance
Jalana L. McCasland	Vice President Physician Practice Management
Tina Allen	Director Compliance and Internal Audit/Compliance and Privacy Officer
William Massey	Interim Director Supply Chain
Steven Schools	Director, HR and Talent Acquisition
<b>Policy Owner: Kimberly S. Day, Esq., Vice President/General Counsel</b>	

**This policy is in effect for Children's Hospital of The King's Daughters Health System (CHKDHS) to include the following subsidiaries:** Children's Hospital of The King's Daughters, Incorporated (CHKD), Children's Medical Group, Inc., and CMG of North Carolina, Inc. (CMG), and Children's Surgical Specialty Group, Inc. (CSSG).