



2010 PUBLIC ACCOUNTABILITY QUESTIONNAIRE

1. Please describe the key components of the GPO's written code of business ethics and conduct. (Please provide a copy and describe any changes since the last submission.)

Please assure your response includes:

- 1.1. The title of the GPO's written code of business ethics and conduct.
- 1.2. Summary of the key components of the GPO's written code of business ethics and conduct.
- 1.3. Identification of changes that have been made to the written code of business ethics and conduct since last year.

- 1.1 Novation, LLC ("Novation") has established a written code of business ethics and conduct titled "Standards of Business Conduct" (the "Standards"). The Standards form the foundation of Novation's Business Conduct, Compliance and Ethics Program (the "Compliance Program"). In addition to the Standards, the Compliance Program includes numerous written compliance policies designed to communicate business practices, promote and ensure compliance with applicable laws, monitor and correct potential violations, and assure ethical business practices and transparency. These written policies include, but are not limited to, a rigorous Conflicts of Interest Policy (the "Conflicts of Interest Policy"). The Standards, the Conflicts of Interest Policy and other information regarding the Compliance Program are available on Novation's public internet site at <http://www.novationco.com/about/compliance/default.asp>. In addition to the Compliance Program, Novation's has adopted a "Contracting Process" (herein so-called) that is modeled upon the ABA Model Procurement Code and includes contracting standards designed to work in concert with the Compliance Program and promote an open and competitive bid process.
- 1.2 The Standards and the Conflicts of Interest Policy provide that all officers and employees must avoid situations in which their personal activities or relationships could create, or appear to create, a conflict of interest, or make it difficult to objectively carry out job responsibilities or act in the best interest of Novation. The Conflicts of Interest Policy includes equity ownership restrictions as well as provisions prohibiting gifts or business entertainment (other than that of nominal retail value less than \$50.00).

The Contracting Process includes the following components:

Innovative Technology. Novation has resources dedicated to the identification of new and emerging technology, including a Web-based Technology Forum that invites vendors to post information about new products. In addition, Novation has a comprehensive and defined process for evaluating innovative technology outside of the regular contracting cycle. This process is open and fair, protects the confidentiality of innovative technology, and is not unduly burdensome, time-consuming or cost-prohibitive. Novation's policies and procedures offer a defined and objective process to address vendor grievances relating to

any evaluation of innovative technology that provides vendors with a detailed response within 90 days.

Sole, Dual, and Multisource Contracts. Novation is committed to reviewing its Contracting Process on an ongoing basis to ensure that its utilization of sole-source contracts is appropriate and facilitates the successful introduction of innovative technology to members. In the event a new product enters the market that offers incremental patient care benefits or incremental safety benefits, Novation will re-bid the relevant product category or make a dual or multisource award. Additionally, Novation requires that all recommendations to award a sole-source contract for a clinical preference product receive review and approval by the relevant Novation clinical council or task force before going into effect.

The term “clinical preference products” refers to any medical device or any item of medical equipment or supply used to treat a patient for any illness, injury, condition, disease or ailment about which a physician or other clinician (including nurses) could reasonably be expected to express a preference or could be expected to effect patient health or safety or worker health or safety. Relevant member councils or task forces make the determination as to whether or not a particular product is a clinical preference product.

Commitment. Members may in their sole discretion, participate in commitment programs that are designed to provide greater cost savings. Participation in these committed programs is completely voluntary. Commitment programs do not include (i) any combination of clinical preference products and non-clinical preference products or any combination of unrelated clinical preference items with each other, or (ii) any combinations of capital equipment and consumable products.

Contract Term. Novation preserves its existing contracting flexibility by ensuring that all vendor contracts contain (i) a provision permitting termination without cause, upon no more than 180 days written notice; and (ii) a provision permitting the addition of vendors or the termination and re-bid of the contract in the event of the introduction of products which offer incremental patient care benefits or incremental safety benefits. Except in limited circumstances approved by senior management (i.e., when required by economic conditions in the best interests of members), vendor contracts are limited to an initial term of three years or less.

Vendor Fees. Novation does not accept administrative or marketing fees of any kind from vendors that are paid prior to the inception of the contract or that are in the form of vendor equity. The Contracting Process contains measures to ensure that vendor fees are not a determinative factor in the award of contracts (except in those situations where the quality and pricing of competing products are essentially the same). With respect to clinical preference products, Novation does not accept administrative fees that are above three percent or any other form of contract-related marketing fees.

Code of Conduct and Compliance Program. Novation has appointed a corporate Ethics and Compliance Officer, and Novation's Board of Directors has named a board-level Corporate Compliance and Audit Committee, to ensure implementation of the Compliance Program.

1.3 Novation continues to enhance its Compliance Program, including updating and strengthening various compliance policies; enhancing compliance training; updating and expanding the compliance elements on Novation's secure employee intranet and public internet sites; and enhancing compliance monitoring and audit functions. The Standards were adopted in their current form on January 1, 2009, and were not amended in 2010.

- (a) Please describe the ownership structure of your organization, including details regarding the following:
- (i) What person(s) or entit(ies) control the majority of voting interests in your GPO?
Novation is a joint venture formed and controlled by VHA Inc. ("VHA") and University HealthSystem Consortium ("UHC").
 - (ii) Please categorize the types of equity holders of your GPO (e.g., healthcare providers, private citizens, for-profit entities, not-for-profit entities)
VHA and UHC own 77% and 23% respectively of the equity in Novation. VHA is a cooperative of nonprofit healthcare organizations. UHC is a cooperative of nonprofit academic medical centers.
 - (iii) Is your GPO or any of its equity holders a publicly held company?
No.
 - (iv) What is the corporate form of your organization (e.g., corporation, partnership, limited liability company, co-op, etc?)
Novation is a Delaware limited liability company.
 - (v) Is your GPO organized as a for-profit or not-for-profit organization, and in what state is it organized?
See response to Questions 1(a)(ii) & 1(a)(iv).
- (b) Please describe the composition of your Board of Directors or other governing body ("Board").
- (i) Please state how many individuals serve on your Board.
Novation's Board of Directors (the "Board") consists of 14 members. As of December 31, 2010, one seat on the Board is open.
 - (ii) Please state what percentage of the directors on your Board represent entities that participate in (i.e., are customers of) your GPO.
Fifty-seven percent (57%) of the members of the Board represent entities that participate in Novation.
 - (iii) Please state what percentage of the directors on your governing board are employees of your GPO.
One member of the Board is an employee of Novation. Thirty-six percent (36%) are employees of either VHA or UHC.
 - (iv) Please state whether any members of your Board also serve as employees, officers, or directors of any Participating GPO Vendor.
None of Novation's Board members serve as employees, officers or directors of any Participating GPO Vendor.
 - (v) If your Board has members that serve as employees, officers, or directors of a Participating GPO Vendor, please state how many and what percentage of the total Board, and explain what policies you have in place to address potential

conflicts of interest that may arise. For the purposes of this Questionnaire, “Participating GPO Vendor” means a manufacturer, distributor, supplier or other vendor of health care services and/or products that has a contract or submits a formal bid or offer to contract with the GPO to provide goods or services to the GPO’s participants.

N/A.

- (c) Please indicate whether any equity holder of your GPO (i.e., any ownership or investment interest other than an ownership or investment interest in a publicly traded security and mutual fund) is a physician (or an immediate family member of a physician). An “immediate family member” means a husband or wife, birth or adoptive parent, child, or sibling, stepparent, stepchild, stepbrother, or stepsister; father-in-law, mother-in-law, daughter-in-law; grandparent or grandchild; and spouse of a grandparent or grandchild. An “equity holder” means the named holder of any stock, membership, unit, or other ownership interest.

No physician (or immediate family member of a physician) owns an equity interest in Novation.

2. Please describe the GPO’s policies and procedures that address conflicts of interest for all employees and clinical advisory members in a position to influence contracting decisions and for all other employees and members of the Board of Directors and/or the GPO’s governing body.

Please include in your answer:

- 2.1. Who is covered by your conflict of interest policies?
- a) All employees or employees directly involved in purchasing?
 - b) All executives of the company or those directly supervising purchasing activity?
 - c) The board of directors?
 - d) Members of clinical advisory committees?
 - e) Any other groups?
- 2.2. What are the primary conflict of interest constraints for each of the categories listed in the question above?
- a) No equity investments in participating vendors or disclosure of equity investments? (Or no investments above a threshold dollar level?)
 - b) No service on boards of directors of participating vendors or disclosure of board of director positions?
 - c) Are gifts allowed to be accepted from or provided to vendors? If yes, please describe the limitations.
 - d) Are meals or entertainment allowed to be accepted or provided to vendors?
 - e) Other constraints?

- 2.1 Novation’s Standards and Conflicts of Interest Policy cover all employees and officers. In addition, Novation has conflict of interest policies for members of its Board of Directors and advisory committees.

- (a) See responses to Questions 2.1 and 2.2(a)-(c).
- (b) See responses to Questions 2.1 and 2.2(a)-(c).
- (c) See responses to Questions 2.1 and 2.2(a)-(c).
- (d) See responses to Questions 2.1 and 2.2(a)-(c).
- (e) Not applicable.

2.2 The primary conflict of interest constraints for each of these categories of individuals are as follows:

- (a) Ownership of Individual Equity Interests in Participating Vendors.

Officers and employees who are in position to exercise pervasive influence on contracting decisions (and their spouses and minor children) are prohibited from owning an Individual Equity Interest (defined below) in any participating vendor.

Officers and employees who are in a position to influence Novation's contracting decisions in a particular product category (and their spouses and minor children) are prohibited from owning an Individual Equity Interest in a participating vendor in that product category. An individual who may be in a position to influence Novation's contracting decision may own an Individual Equity Interest in a participating vendor, if the Ethics and Compliance Officer determines that the individual has no actual influence on the contracting decision of the participating vendor. Such individual may not, however, own an Individual Equity Interest in a national participating vendor that does business across several service lines.

All other employees who do not influence contracting decisions and members of advisory committees must disclose individual equity interests in participating vendors and recuse themselves from any negotiations or decisions regarding those participating vendors.

The term "Individual Equity Interest" means securities, options, warrants, debt instrument (including loans) or rights to acquire any of the foregoing; provided, however, that (i) interests in mutual funds, or (ii) interests held in blind trust shall not be included.

Members of Novation's Board of Directors and advisory committees must adhere to conflicts of interest policies that require the member to disclose ownership of an Individual Equity Interest in a participating vendor and be recused from any decisions relating to such vendors.

- (b) Service on Board of Participating Vendors.

Employees and officers are prohibited from serving as an officer, director, employee or consultant of a participating vendor.

Members of Novation's Board of Directors and advisory committees must adhere to conflicts of interest policies that require the member to disclose service on any board

of directors of any participating vendor and be recused from any decisions relating to such vendors.

(c) Vendor Gifts, Services, Entertainment and Favors.

Employees and officers may not accept gifts, services, entertainment, favors, honoraria from a participating vendor, unless the item or service is of Nominal Value. The term “Nominal Value” means any item, service or other thing of value (not including cash or cash equivalents) that does not exceed \$50 per instance or \$100 in any given calendar year. The total retail value of all nominal value gifts received by each employee during each calendar year from all sources shall not exceed \$300.00.

Members of Novation’s Board of Directors and advisory committees must adhere to conflicts of interest policies that require the member to disclose the acceptance of any gifts, favors, honoraria or personal services payments, other than those of Nominal Value, from any participating vendor to the appropriate governing body. The member is then recused from any decisions relating to such vendors.

(d) See response to Question 2.2(c).

(e) Not applicable.

3. Please describe the GPO’s policies and procedures that address activities, including other lines of business of the GPO and the GPO’s parent company or affiliates, that might constitute conflicts of interest to the independence of its purchasing activity.¹

Please include in your answer:

- 3.1. List other lines of business or investments of the GPO or affiliates.
- 3.2. List other lines of business or investments of its parent company or parent affiliates.
- 3.3. What other services does the GPO and its parent company and/or affiliate sell to vendors?
- 3.4. What policies or guidelines does the GPO have to address any potential conflicts of interest with regard to other lines of business within the GPO and/or its parent or affiliated companies?
 - a) Does the GPO and/or its parent or affiliated companies have either a policy to ensure that it does not accept a corporate equity interest in any participating vendor or a policy to mitigate against this potential conflict of interest?

¹ Business concerns, organizations, or individuals are affiliates of each other if, directly or indirectly, (1) either one controls or has the power to control the other, or (2) a third party controls or has the power to control both. (See 48 CFR, Section 9.403 (2007); Securities Act, Sec. 16, 15 USC 77p(f))

- b) Does the GPO and/or its parent or affiliated companies accept any vendor fees relating to conference sponsorship or exhibit booth space or have a policy to guard against any potential conflict of interest relating to vendor participation in industry trade shows?
- c) Does the GPO and/or its parent or affiliated companies accept any grants for educational programs or other projects from vendors or have a policy to guard against any potential conflict of interest relating to such donations?

- 3.1 Novation does not offer services that might constitute conflicts of interest with our contracting activities. Novation maintains and continues to develop our Information and Data Services business unit, which offers supply chain data analytics and related services that facilitate and enhance supply chain operations. Participation in these programs is voluntary and at the sole discretion of the member.
- 3.2 Information regarding activities and other lines of business of Novation’s parent company, VHA Inc. (“VHA”), may be found at <https://www.vha.com/portal/server.pt>. Information regarding activities and other lines of business of Novation’s parent company, University HealthSystem Consortium (“UHC”), may be found at <http://www.uhc.edu>. Information regarding Provista, LLC (“Provista”), a subsidiary of VHA, is available at <http://www.provistaco.com>.
- 3.3 See responses to Questions 3.1 and 3.2.
- 3.4 In addition to the Standards and Conflicts of Interest Policy, Novation maintains a Supplier Sponsorship Policy to ensure that vendors who advertise on Novation’s website are not given preference in the vendor selection process. The Supplier Sponsorship Policy also applies to any type of vendor sponsorship, including donations for educational programs. See also response to Question 4.9.
 - (a) Novation has no ownership or equity interest in any participating vendor and does not accept administrative fees in the form of vendor equity.
 - (b) See response to Question 3.4(a).
 - (c) See response to Question 3.4(a).
- 4. Please describe the GPO’s policies with regard to disclosing to members money or value received from vendors, whether in the form of administrative fees, marketing fees, partnership incentives, equity or any other form.**

Please include in your answer:

- 4.1. Does the GPO make annual disclosures of administrative fees received from vendors for contracting activities with respect to the member's purchase of products and services?
- 4.2. Does the GPO disclose to members all payments other than administrative fees the GPO received from any vendor in the course of the GPO's group purchasing activities, whether from the purchasing activity of those members or not?
- 4.3. Does the GPO accept marketing fees?
- 4.4. Does the GPO accept partnership incentives?
- 4.5. Does the GPO accept equity?
- 4.6. Does the GPO accept upfront fees?
- 4.7. Does the GPO accept honoraria?
- 4.8. Please describe the GPO's policy with respect to administrative fees received on purchases made by an ineligible member (e.g., a policy regarding the return of such administrative fees to the applicable vendor).
- 4.9. Please describe the GPO's policy with respect to the receipt of sponsorship funds, grants, and other non-administrative fee revenue from vendors.
 - i. If the GPO allows the receipt of educational grants, please describe in detail the types of programs for which it receives such grants.
 - ii. If the GPO receives or is permitted to receive sponsorship funding, please describe the circumstances under which it may receive such funding?
 - iii. If such funding is received by the GPO, is it disclosed to the GPO's participating members and how?

Pursuant to the instructions, the following response to this question does not contain information that is competitively sensitive and proprietary to Novation.

4. Members receive two types of disclosures for GPO administrative fees: First, members may view vendor contracts with fee provisions that are not fixed at three percent or less of the dollar value of member purchases through a secure internet database that is available 24 hours a day, 365 days a year. In addition to this "up-front" notice of vendor contract administrative fee provisions, members receive annual fee disclosure reports that indicate, on a contract-by-contract basis, the amount each member purchased in the previous year and the amount of administrative fees Novation received in connection with those purchases.
 - 4.1 See response to Question 4.
 - 4.2 In addition to the administrative fee disclosures described in response to Question 4, Members also receive information regarding vendor sponsorship, grant, and exhibition fees.
 - 4.3 See response to Question 4.
 - 4.4 Novation does not accept partnership incentives, vendor equity, or any "sign-on bonus" or other "up front" lump sum fees of any kind that are paid prior to inception of the contract.
 - 4.5 See response to Question 4.4.

- 4.6 See response to Question 4.4.
- 4.7 Novation does not accept honoraria payments.
- 4.8 Novation requires the return of administrative fees to the applicable vendor for purchases made by an ineligible member.
- 4.9(i) Under limited circumstances, Novation will accept sponsorship funds and/or educational grants from current or prospective vendors for member meetings (e.g., tradeshow), clinical programs or educational events (e.g., continuing medical education). Such funds are accepted pursuant to a written Supplier Sponsorship Policy that includes detailed controls to avoid even the appearance of impropriety, including but not limited to prohibitions on: selecting sponsors based on the volume or value of sales or administrative fee revenue; providing sponsors any preferential treatment or access during Novation’s open and competitive bid process; allowing sponsors to influence the outcome of research; allowing sponsors to influence the substance of educational materials; and requiring vendors to participate in sponsorship activities. In addition, the dollar value of all contributions for a given activity may not exceed 100% of the total project expenses for the activity; must be appropriately documented in writing; and is disclosed in writing to members participating in the event in question.
- 4.9(ii) See response to Question 4.9(i).
- 4.9(iii) See response to Question 4.9(i).

5. Does the GPO disclose to each member all fees, in any form, paid to the member organization?

Please include in your answer:

- 5.1. Describe your disclosure practices.
- 5.2. Does the GPO pay fees to members upon the signing or re-signing of a participation agreement with the GPO or the joining or renewal of membership in the GPO program?

- 5.1 Members receive annual reports detailing the cash and non-cash value that the members earned during the prior reporting period. The reports include both (i) value provided by the GPO to their members (such as cooperative distributions), and (ii) value provided by vendors to the members (such as rebates) to the extent this information is reported to the GPO by vendors.
- 5.2 Novation does not pay fees to members upon the signing or re-signing of a participation agreement with the GPO or the joining or renewal of membership in the GPO program.
- 6. **Please describe the GPO’s publicly available description of its bid and award process which includes the following principles similar to those embodied in the Federal Competition in Contracting Act?**

Please include in your answer:

- 6.1 Does the GPO have a publicly-available description of its bid and award process?
- 6.2 Is the description on a public website or sent to those who inquire, or provided in some other way?

6.1 Novation utilizes a Request for Proposal (“RFP”) Process that follows principles similar to those embodied in the Federal Competition in Contracting Act. Information regarding Novation’s RFP Process and its bid calendar are publicly-available at www.novationco.com. In addition, any vendor who registers to participate in a particular RFP receives an “RFP Package,” which includes instructions for the particular procurement.

6.2 See response to Question 6.1.

6i. Please describe the GPO’s requirements for how items or services to be purchased are generally identified and published so they are accessible to potential vendors.

Please include in your answer:

- 6i.1. Does the GPO publish to all vendors the decision criteria used to award potential contracts? Where is it available?

6i.1 Novation’s RFP Package contains (i) bid specifications for the product being procured, (ii) basic qualifying factors that vendors must meet, and (iii) the criteria that will be used to evaluate proposals. The RFP Package is sent to all interested vendors who register to participate in a particular RFP. RFP proposals are evaluated in accordance with the evaluation criteria and procedures set forth in the RFP Package.

6ii. Please describe the GPO’s disclosure requirements regarding how vendors are to be identified as a responsible bidder.

Please include in your answer:

- 6ii.1. Does the GPO publish the general requirements to be considered a responsible bidder?
- 6ii.2. Does the GPO publish specific requirements to be considered a responsible bidder in each specific contract category?

6ii.1 The RFP Package, which is available to all registered vendors, contains the requirements to be considered a responsible bidder in connection with each contract category.

6ii.2 See response to Question 6ii.1.

6iii. Please describe the GPO’s policy with regard to whether all responsible vendors are eligible to compete and receive a contract award under the criteria.

Please include in your answer:

6.iii.1. Are all responsible vendors eligible for every contract award, or are there specific requirements for each bid process to be considered for an award?

6iii.1. Novation's RFP Process is open to all vendors.

6iv. Please describe how the criteria for selection of a vendor is identified and publicized to potential vendors, and followed.

Please include in your answer:

6iv.1. Are the criteria by which a winning vendor will be selected identified to all bidders?

6iv.2. Does the GPO have a process to assure that the criteria are followed in the actual awards?

6iv.1 The criteria by which a winning vendor will be selected is identified to all bidders through the instructions included in the RFP Package.

6iv.2 To assure that the criteria are followed in the actual awards, the appropriate member council or task force reviews information regarding the RFP prior to the announcement of winning vendors.

6v. Please describe GPO's practice with regard to having a fair and unbiased system for evaluating products and services considered for procurement.

Please include in your answer:

6v.1. Does the GPO have such a system?

6v.2. Describe the process by which products and services are evaluated.

6v.1 Novation's RFP Process provides a fair and unbiased review of competing proposals and is intended to lead to an award to the vendor(s) who offers the best value, based upon the combined total of their financial and qualitative (non-financial) scores.

6v.2 Novation's Contracting Process engages member councils and task forces to the greatest practical degree, including the determination of the qualitative scores based upon their evaluation of the quality of the vendors' product and the service offerings.

6vi. Please describe how this practice includes a preference for competitive procurement.

Please include in your answer:

1. Describe your policies that support competitive procurement.

6vi.1 The RFP Process follows principles similar to those embodied in the Federal Competition in Contracting Act and is modeled upon, to the extent possible, the requirements of the ABA Model Procurement Code. Awards may be made without using this process in unique circumstances where they enhance member choice or flexibility and/or to promote Novation's supplier diversity initiative. For example, non-competitive contract awards are provided: (i) to innovative medical products which offer incremental benefits to patient care, patient safety or health care worker safety; (ii) to small, women-owned, minority-owned, or veteran-owned businesses; and (iii) to innovative proprietary products which have no alternatives.

6vii. Please describe the GPO's policy with regard to the appropriate use of single, sole, dual, and multi-source procurement.

Please include in your answer:

- 6vii.1. Does the GPO have a policy for sole, dual and multi-source procurement?
- 6vii.2. When will sole and dual source procurement be used?
- 6vii.3. Describe the GPO's process for awarding contracts including contracts awarded to a single vendor where there is no exclusivity provision in the contract.

Sole and dual source contracts are contracts that contain exclusivity language that prevents the GPO from entering into a contract with more than one or two vendors.

6vii.1 With the active input of its member councils and task forces, a number of factors are carefully considered when evaluating whether to contract with one vendor (a single-source contract) or with more than one vendor (multi-source contracts) for a given product category. Single-source contracts are entered into when a member council or task force determines that such an agreement would provide substantial member value without compromising patient care, patient safety, or healthcare worker safety.

6vii.2 See response to Question 6vii.1.

6vii.3 See response to Question 6vii.1.

6viii. Please describe the GPO's process for ensuring that administrative fees do not encroach upon the best interests of the member organizations.

Please include in your answer:

- 6viii.1. What is the GPO's practice regarding the amount of administrative fees accepted?
- 6viii.2. Under what conditions does the GPO accept administrative fees beyond 3 percent, requiring specific (not blanket) disclosure under the Federal Regulatory Safe Harbor provisions?
- 6viii.3. Please describe the range of administrative fees accepted.
- 6viii.4. Does the GPO accept other kinds of fees from vendors, such as marketing fees, equity, signing bonuses, and upfront fees? Please describe these other fees and how prevalent they are.
- 6viii.5. Does the GPO impose a minimum fee requirement for suppliers, and if so, under what

circumstances?

6viii.1 The fee rates are offered by suppliers in their response to Novation's invitation to bid and are based upon the value they attribute to the agreement.

6viii.2 See responses to Questions 6viii.1 and 6viii.3.

6viii.3 Novation's overall average administrative fee is less than 3% and there is no minimum administrative fee requirement. Novation does not accept fees above 3% in contracts for any clinical preference items. Approximately 88% of all contracts include fees of 3% or below. Approximately 11% of all contracts contain fees between 3% and 6% and less than 2% of all contracts contain fees between 6% and 9.9%. All fees are disclosed and reported per Federal Regulatory Safe Harbor provisions.

6viii.4 Novation does not accept marketing fees, equity, signing bonuses or upfront fees. In certain older Novation agreements, GPO administrative fees are referred to as "marketing fees."

6viii.5 See response to Question 6viii.3.

6ix. Please describe the GPO's policy to ensure the appropriate use of bundling products and the length of contracts for clinical preference products.

Please include in your answer:

6ix.1. Describe the GPO's policy guiding the use of bundling.

6ix.2. Does the GPO permit bundling of unrelated products or services from the same vendor? When?

6ix.3. Does the GPO permit bundling of unrelated products or services from different vendors? When?

6ix.4. Describe the GPO's policy guiding the appropriate length of contracts for clinical preference products.

6ix.1 Novation carefully assesses all proposed multi-product proposals in an effort to avoid those that would unreasonably limit member choice or flexibility, prevent innovative technology from reaching members, or unreasonably foreclose competition. Multi-product packages that combine clinical preference and non-clinical preference categories are not offered. However, multi-product packages for a group of functionally-related products may be offered when consistent with the overriding objective to provide members with the most innovative, cost-effective products possible.

6ix.2 See response to Question 6ix.1.

6ix.3 See response to Question 6ix.1.

6ix.4 In order to ensure that contract length does not encumber member access to innovative technology, with rare exception that must be approved by executive management, vendor contracts for clinical preference products are limited to an initial term of three years or less. Additionally, contracts permit termination without cause, upon no more than 180 days written notice, and include a provision permitting the addition of other vendors or the

termination and re-bid of the contract if products that offer incremental patient care or safety benefits are introduced.

6x. Please describe whether the GPO has a private label program for medical products.

Please include in your answer:

- 6x.1. Describe the medical products the private label program covers.
- 6x.2. Describe the GPO's practice regarding the fees derived from this private label program?
- 6x.3. Please describe the range of private label fees accepted.
- 6x.4. Describe any internal policies that address the private labeling of medical products.

Pursuant to the instructions, the following response to this question does not contain information that is competitively sensitive and proprietary to Novation.

- 6x.1 Novation's private label products, which are sold under the NovaPlus® brand name, provide high quality, non-clinical preference medical, surgical and pharmaceutical commodities.
- 6x.2 Novation receives an administrative fee and a trademark license fee for the use of the NovaPlus® brand name.
- 6x.3 See response to Question 6viii.3.
- 6x.4 Novation maintains a rigorous quality and regulatory affairs program designed to ensure, among other things, the quality of contracted suppliers and NovaPlus® products. Among other elements, Novation conducts regular quality audits of contracted NovaPlus® suppliers under the direction of Novation's Director of Quality and Regulatory Affairs.

6xi. Please describe the GPO's supplier grievance process?

Please include in your answer:

- 6xi.1 Please describe the GPO's policy and process with respect to responding to a supplier's grievance regarding the bid/award process?
- 6xi.2 Does the GPO participate in HGPII's Independent Evaluation Process?
- 6xi.3 Is the description of the GPO's supplier grievance process on a public website or sent to those who inquire, or provided in some other way?
- 6xi.4 Did any supplier, since submission of the last GPO's Public Accountability Questionnaire, request evaluation pursuant to the HGPII Independent Evaluation Process? If so, please provide information regarding the outcome of such evaluation.

- 6xi.1 See Questions 7.1-7.4.
- 6xi.2 Yes. Novation played a leading role in the development of the HGPII Independent Evaluation Process and continues to participate.
- 6xi.3 Novation's Vendor Grievance Process is available on Novation's public website, proactively disclosed during every Vendor Debrief call/meeting, and provided to those who inquire. See Questions 7.1-7.4.
- 6xi.4 As of December 31, 2010, no supplier has requested an evaluation pursuant to the HGPII Independent Evaluation Process.

7. Please describe the GPO's publicly available policy and procedure that addresses vendor rights, including a procedure for vendor grievances.

Please include in your answer:

- 7.1. Please describe the GPO's policy and procedure related to vendor rights and where is it available.
- 7.2. How does the GPO address vendor grievances?
- 7.3. Please describe in general the grievance process.
- 7.4. Has the new HGPII independent vendor grievance review process been displayed on the GPO's public Website?

- 7.1 Information regarding Novation's Vendor Grievance Process is available at http://www.novationco.com/technology/grievance_process.asp?menu=sdp.
- 7.2 See response to Question 7.3.
- 7.3 Vendors may submit a grievance to Novation via e-mail, the compliance hotline, the compliance reporting website or telephone within 30 days of the relevant product category contract's effective date. Novation acknowledges receipt of any grievance and provides a detailed response within 90 calendar days. The primary Novation member council or task force involved in the award at issue reviews the grievance and decides on the appropriate response.
- 7.4. Yes. Novation's public website discusses the HGPII Independent Evaluation Process and includes a link to the HGPII website.

8. Please describe the GPO's policy and process to evaluate and provide opportunities to contract for innovative clinical products and services.

Please include in your answer:

- 8.1. Does the GPO have a process for evaluating innovative technologies? Please describe the process in general.

- | | |
|------|--|
| 8.2. | Does the GPO have the right to write a new contract at any time for innovative technology? Describe. |
| 8.3. | How does the GPO ensure innovative technology provisions exist in vendor contracts? |
| 8.4. | Are GPO members allowed to evaluate products from vendors, regardless of whether such vendor has a contract with the GPO? |
| 8.5. | Are GPO members allowed to communicate with all vendors, regardless of whether the vendor has a contract with the GPO? |
| 8.6. | Are GPO members allowed to purchase non-contracted products of clinical preference products or services directly from vendors? |

8.1 Novation has a detailed process for evaluating innovative technologies. Vendors may submit information concerning potentially innovative medical technology for contract consideration outside of the normal contracting cycle at any time. Submissions are evaluated to determine whether the device or product offers incremental benefit to patient care, patient safety or health care worker safety. If the device or product does offer such benefits, a contract will be awarded, even if the new technology determination is made outside normal contracting cycles. Innovative technology contracting recommendations are made by the appropriate member council or task force. Novation also actively monitors and evaluates the medical product development pipeline to identify potentially innovative products and devices for contract opportunities and operates a Web-based Technology Forum on which vendors can post information about new products. Further information regarding Novation's innovative medical technology process is available at <http://www.novationco.com/technology/default.asp>.

8.2 Novation retains the right to execute new agreements for innovative technology products that offer incremental benefit to patient care, patient safety or healthcare worker safety at any time. Virtually all Novation agreements for medical or surgical products contain provisions authorizing Novation to add new vendors of innovative technology products, or to terminate the agreement and re-bid the affected product category.

8.3 See response to Question 8.2.

8.4 Novation in no way restricts the members of UHC, VHA or Provista from evaluating products from, communicating with, or contracting with vendors of any products. Members are free to communicate and contract with vendors, regardless of the vendor's contracting status with Novation or the product's classification as an innovative or clinical preference product.

8.5 See response to Question 8.4.

8.6 See response to Question 8.4.

9. Please describe the GPO's program or activities that encourage contracting with small, women-owned and minority businesses.

Please include in your answer:

- 9.1. Please describe the program or activities and indicate specifically which types of businesses are included in the program
- 9.2. Please provide current statistics reflecting the percentage by dollar value and number of contract awards to support the program.

9.1 Through its Supplier Diversity Program, Novation is committed to encouraging and supporting the development of minority-, women- and veteran-owned business enterprises (“MWVBES”) that meet high quality standards. Toward this end, Novation’s Supplier Diversity Program seeks agreements with certified minority-, women- and veteran-owned manufacturers and distributors; and maintains a database of approved MWVBES as potential supply partners. Information regarding Novation’s Supplier Diversity Program is available at http://www.novationco.com/suppliers/supplier_diversity/default.asp.

9.2 At the present time, Novation has a portfolio of 95 contracts with minority-, women- and veteran-owned firms. During January - October 2010, members conducted over \$264,000,000 of business activity with Novation’s portfolio of diverse firms.

10. Please describe whether and in what manner the GPO distributes its written code of business ethics and conduct to all applicable employees, agents, contractors, clinical advisory committees, and others involved in group purchasing activity.

Please include in your answer:

- 10.1. Does the GPO distribute the code of conduct to all employees? By what manner is the code provided to employees? How often?
- 10.2. Where can the code be found electronically?
- 10.3. Does the GPO distribute its code of conduct to all members of clinical advisory committees? How often?
- 10.4. Does the GPO distribute the code to all of the board of directors? How often?
- 10.5. Does the GPO distribute its code of conduct to all agents and contractors that participate in the GPO activity? How often?
- 10.6. Does the GPO distribute its code to vendors and others with whom it does business?

10.1 Novation has distributed the Standards, Conflict of Interest Policy and other Compliance Program information to all employees. Compliance Program information is provided both in hard copy and in electronic form. In addition, all employees have received training on the Standards and other elements of the Compliance Program. This information and training is provided to all new employees upon employment. Supplemental compliance training is provided to all employees at least annually.

10.2 The Standards and other Compliance Program information are posted and available on Novation’s employee intranet site and the external, publicly-available website for all vendors, agents, contractors and others with whom Novation does business.

- 10.3 Novation distributes a conflict of interest policy to all members of its Board of Directors and advisory committees upon selection of the member and on an annual basis thereafter.
- 10.4 See response to Question 10.3.
- 10.5 See response to Question 10.2.
- 10.6 See response to Question 10.2.

11. Please describe how new employees involved in group purchasing are provided an orientation to the written code of business ethics and conduct.

Please include in your answer:

- 11.1. Do all new employees involved in group purchasing get a copy of the code during their orientation?
- 11.2. Do all new employees get some type of orientation to or discussion of the code? Please describe the orientation.

- 11.1 A review and explanation of the Standards and Compliance Program is included in new employee orientation and in training which occurs shortly following employment. Subsequent to that instruction, each new employee is required to complete a Business Ethics Certification form.
- 11.2 See response to Question 11.1.

12. Please describe the nature and content of the GPO's annual employee refresher training on the written code of business ethics and conduct.

Please include in your answer:

- 12.1. Which employees receive annual refresher training?
- 12.2. Please describe the content of the training and the method of delivery.

- 12.1 All employees receive annual refresher training on the Compliance Program.
- 12.2 The training is provided using a Web-based presentation that includes a certification of completion. In addition to explanatory text, the training presentation provides examples and questions to verify learning. All employees are required to certify compliance with the Conflicts of Interest Policy on an annual basis.

13. Please describe the mechanism (e.g., a corporate review board, ombudsman, corporate compliance or ethics officer) for employees to report possible violations of the written code of business ethics and conduct to someone other than one's direct supervisor, if necessary.

Please include in your answer:

- 13.1. Does the GPO have a mechanism for employees to report possible violations of the code to someone other than the direct supervisor? Please describe the mechanism.
- 13.2. What process is used to protect the confidentiality of the reporting employee's identity?
- 13.3. What safeguards are in place to mitigate the opportunities for retaliation?

- 13.1 Novation employees are required to report any conduct that they believe may violate the Standards, other elements of the Compliance Program, and/or any laws or regulations. Suspected misconduct may be reported: (i) to Novation's Compliance Officer, Compliance Department or Legal Department; (ii) through Novation's Compliance Hotline (1-877-220-1615); (iii) through Novation's customized Web-based reporting system at www.EthicsPoint.com; or (iv) to the employee's direct supervisor. If a direct supervisor receives a report of suspected misconduct, he or she must report the suspected misconduct to the Compliance Department.
 - 13.2 The identities of individuals who report suspected misconduct are maintained as confidential to the fullest extent possible. Employees who wish to remain anonymous are able to anonymously report suspected misconduct through Novation's Compliance Hotline or Web-based reporting system.
 - 13.3 Novation does not retaliate against an employee who makes a good faith report of suspected misconduct.
- 14. Please describe the mechanism the GPO utilizes to follow up on reports of suspected violations to determine what occurred and who was responsible, and to recommend corrective and other actions.**

Please include in your answer:

- 14.1. Describe the process to evaluate, investigate and resolve the report or concern and to review related current policies and practices for possible revision.

- 14.1 Novation's Ethics & Compliance Officer is required to promptly and thoroughly investigate reports of suspected misconduct to determine whether there has been a probable and material violation of any laws, regulations, or Novation's policies and procedures. The Compliance Officer may also, on his/her own initiative, investigate instances of suspected misconduct that have not been reported. The Compliance Officer is supported internally by Novation's Compliance Department, as well as dedicated compliance counsel within the Legal Department. Depending on the nature and severity of the suspected misconduct, the Compliance Officer may utilize outside legal counsel to assist in conducting internal investigations. If the Compliance Officer determines that there has been a material violation of any laws, regulations or Novation's policies and procedures, Novation must take appropriate remedial actions, which may include programmatic corrective action and/or personnel disciplinary action, and must report any such actions to the Compliance and Audit

Committee of the Novation Board of Directors and, where appropriate, the entire Novation Board of Directors.

15. Please describe how the GPO employees' compliance with its written code of business ethics and conduct is measured in their job performance?

Please include in your answer:

- 15.1. Is ethical conduct or conduct consistent with the written code of conduct an explicit standard by which all employees and levels of supervision are measured in their job performance?
- 15.2. Describe how ethics is evaluated and taken into account.

15.1 The employee performance review cycle includes a performance evaluation criterion addressing conduct consistent with the Standards and Compliance Program. "Permission to Play" values of respect, integrity, service and judgment are an integral part of Novation's performance evaluation process. In addition, each year all Novation managers are instructed to (i) discuss the Compliance Program with each employee during the annual review process, and (ii) determine if there are any unresolved ethical issues that need to be addressed.

15.2 See response to Question 15.1.

16. Please describe the processes the GPO utilizes to monitor, on a continuing basis, adherence to the written code of business ethics and conduct, and with applicable federal laws.

Please include in your response:

- 16.1. Is there a process to evaluate at least annually the GPO's adherence to the law and to the code of conduct? Please describe.
- 16.2. Who conducts the evaluation(s)?
- 16.3. To whom are reports of the evaluation(s) provided (e.g., Board, CEO)?

16.1 Employees are required to report any suspected misconduct and such reports are investigated. Additionally, all employees in a position to influence contracting decisions are required to execute quarterly compliance certifications regarding their knowledge of any deviations from Novation's internal policies and procedures. Any issues identified on quarterly compliance certifications or otherwise are investigated by the Compliance Officer with the assistance of the Novation Compliance Department, Legal Department and/or outside legal counsel, as appropriate. All employees are also required to execute annual certifications regarding compliance with the Conflicts of Interest Policy. In addition, the Novation Legal Department conducts a vendor contract compliance review before each of its vendor contracts is executed to ensure compliance with Novation's policies and

procedures, as well as relevant laws and regulations. Finally, the Novation Compliance and Legal Departments conduct periodic compliance audits to ensure compliance with applicable laws and regulations and adherence to its Compliance Program policies and procedures.

16.2 See response to Question 16.1.

16.3 The results of compliance investigations and audits are reported to the Compliance and Audit Committee of the Novation Board of Directors and, where appropriate, the entire Novation Board of Directors.

17. Please describe how the GPO fulfilled its obligation to participate in the most recent Best Practices Forum.

Please include in your answer:

17.1. Please state how many company persons attended the Best Practices Forum in Washington, DC in March, 2010.

17.2. Please name the most senior executive who attended.

17.1 Seven Novation personnel participated in the GPO Best Practices Forum in 2010.

17.2 Novation attendees were: Eldon Petersen, Group Senior Vice President; Pete Allen, Senior Vice President; Jill Witter, Vice-President, General Counsel, Ethics & Compliance Officer; David Berry, Assistant General Counsel; Randy Cowart, Vice President; Lamont Robinson, Senior Director; and Kathryn Goldstein, Director.

18. Please describe how the GPO reports to the company's Board of Directors or its Audit or other appropriate committee on the GPO's ethics and compliance program and its commitment to the Initiative's Principles.

Please include in your answer:

18.1. Are periodic reports on the company's ethics and compliance program made to the GPO's board of directors or to a committee of the board? If so, please state how often and in general, what information is reported?

18.2. Are periodic reports on the company's participation in the Initiative made to the GPO's board of directors or a committee of the board? If so, please state how often and in general, what information is reported?

18.1 The Novation Ethics and Compliance Officer reports to the Compliance and Audit Committee of the Board of Directors on a quarterly basis regarding compliance issues and the status of the Compliance Program.

18.2 Periodic reports on Novation's participation in the Initiative are made to the Compliance and Audit Committee during its quarterly meetings. The Committee and/or President in turn report to the full Board of Directors.

19. Please name the senior manager assigned responsibility to oversee the business ethics and conduct program.

Please include in your answer:

- 19.1. The name and title of the individual.
- 19.2. Contact information for the individual.
- 19.3. Please give the contact information for the person responsible for responding to questions related to this report.

19.1 Jill Witter, Vice President, General Counsel, Ethics and Compliance Officer, oversees Novation's Compliance Program.

19.2 Jill Witter
Vice President, General Counsel, Ethics and Compliance Officer
125 E. John Carpenter Freeway
PO Box 140909
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(972) 581-5135
jwitter@novationco.com

19.3 See response to Question 19.2.