

2019 PUBLIC ACCOUNTABILITY QUESTIONNAIRE

This Questionnaire Covers Calendar Year 2018.
Please return your response to sonja.nesbit@arentfox.com no later than
June 3, 2019.

OWNERSHIP AND ORGANIZATIONAL STRUCTURE

1. Describe the ownership structure of your GPO and/or its parent or affiliated companies, including details regarding the following:

Capstone Health Alliance, Inc., a for-profit C Corporation, is wholly owned by WNC Health Network, Inc., a 501(c)(3) organization. Capstone's headquarters is located in Fletcher, NC.

2. Describe the ownership structure of your GPO and/or its parent or affiliated companies, including details regarding the following:

Our Board consists of 9 members. 7 are GPO customers and 2 are retired from Healthcare Systems. None of our Board members are serving as an employee, officer, or director of a participating vendor.

3. Indicate whether any equity holder of your GPO and/or its parent or affiliated companies is a physician (or an immediate family member of a physician).

No equity holder of Capstone is a physician or an immediate family member of a physician.

CONFLICT OF INTEREST

4. Describe the GPO's policies and procedures that address conflicts of interest for:

AND (see response to #5)

5. Describe actions the GPO takes to avoid conflict of interest issues for members of the Board of Directors (e.g. disclosure and/or prevention of equity investments in participating vendor relationships and acceptance of gifts/meals/travel/entertainment paid for by vendors).

Capstone Employees, Board Members and Committee Members are all expected to comply with Capstone's Code of Ethics and Compliance, Conflict of Interest & Vendor Relations policies. In regards to those, specifically:

Employees:

Gifts to Capstone employees: No Capstone employee shall accept gifts, entertainment, favors, honoraria or personal service payments other than of nominal value from any participating vendor.

Equity ownership by Capstone employees: No Capstone employee shall, without appropriate disclosure, own an individual equity interest in any participating vendor where they would be in a position to influence a contracting decision.

Insider Trading: Insider trading by an employee of Capstone based on any knowledge of vendors or their prospects gained through their employment is prohibited.

Clinical Advisory Members & Boards of Directors:

Interested Person. Any director, officer, or member of a committee with board delegated powers who has a direct or indirect financial interest, as defined below, is an interested person. If a person is an interested person with respect to any entity in the system of which Capstone is a part, he or she is an interested person with respect to all entities in such system.

Financial Interest. A person has a financial interest if the person has, directly or indirectly, through business, investment or family:

- A. an ownership or investment interest in any entity with which Capstone has a transaction or arrangement; or
- B. a compensation arrangement with Capstone or with any entity or individual with which Capstone has a transaction or arrangement; or
- C. a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which Capstone is negotiating a transaction or arrangement.

In connection with any actual or possible conflicts of interest, an interested person must disclose the existence of his or her financial interest and all material facts to the directors and members of committees with board delegated powers considering the proposed transaction or arrangement.

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he or she may be asked to leave the board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

The policies stated above are signed annually by employees, committee members and Boards of Directors.

6. Describe the GPO's policies and procedures that address activities, including other lines of business of the GPO and/or its affiliates (including non-GPO services and strategic investments) that might constitute conflicts of interest to the independence of its purchasing activity. [1]

All lines of business relate to GPO or supply chain services.

OTHER LINES OF BUSINESS

7. Describe other lines of business or investments of the GPO and its affiliates. We are interested in hearing about new as well as nontraditional GPO services that your company and its affiliates are involved with.
 - *Capstone has created the Capstone Learning Academy which is an online learning platform with modules that our members staff can access to learn about topics such as the Affordable Care Act, Purchasing 101 & 201, Supply Chain 101 & 201, GPO's, Value Analysis, Leadership, etc.*
 - *We have established CSI (Capstone Solutions Inc.) to be able to market to non-healthcare (i.e. Business & Industry) type entities. CSI provides business and industry customers with new and creative savings opportunities through partnerships with industry-leading suppliers.*
8. What policies or guidelines does the GPO have to address potential conflicts of interest with regard to other lines of business engaged in by the GPO and/or its parent or affiliated companies?

Capstone's Vendor Relations Policy applies to all lines of Business.

MONIES FROM VENDORS

9. Describe the GPO's policy with respect to the receipt of sponsorship funds, grants for research or other educational programs, or any other source of non-administrative fee revenue from vendors. What policies does the GPO have to guard against any potential conflict of interest relating to such payments?

Capstone does not solicit any monies for any other activities other than the participation in sponsorships in our Annual Forum or a minimum of \$300 to offset travel for speaking engagements in member educational breakout sessions at our Annual Forum.

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)).

Our Corporate Conflict of Interest Policy applies to all lines of business.

10. Does the GPO and/or its parent or affiliated companies accept vendor fees relating to conference sponsorship or exhibit booth space? What policies does the GPO have to guard against a potential conflict of interest relating to vendor participation in industry trade shows, and donations in general?

Capstone does accept vendor fees with their registration to participate in our Annual Forum for our Vendor Exhibitor Show, select general sessions, and networking events as a participating vendor and/or sponsor. Registration is open to all vendors that have a Capstone agreement. All registration fees are documented.

We do offer suppliers different levels of sponsorship opportunities related to Forum marketing exposure, and they may supply conference type products to all members along with member door prizes.

We are developing a policy to reflect the above.

11. Describe any services or products the GPO or its affiliates provide to vendors on a fee-for-service basis (e.g. data, claims processing, etc.).

No services or products are sold to vendors.

12. 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 (e.g. safe harbor reports)? If this document is publicly available, provide an electronic link to this information.

Capstone does report the administrative fees applicable annually to each member in compliance with Safe Harbor Laws & Provisions, but is not publicly available.

13. Does the GPO disclose to members all payments other than administrative fees the GPO receives from any vendor in the course of the GPO's group purchasing activities (e.g. booth space, educational grants, marketing fees, honoraria, etc.) whether from the purchasing activity of those members or not? Describe your disclosure practices.

We do not report our Annual Forum's vendor registration fees to our members at this time.

14. Describe the GPO's policy with respect to returning administrative fees to an ineligible vendor.

When there are Administrative fees paid on ineligible purchases (i.e. entities no longer Capstone members for that time period), these monies will be returned to the Supplier when the applicable administrative fees total over \$50 in aggregate. This reimbursement will be processed within 45 days of the appropriate reporting been sent to Capstone.

MEMBER FEES

15. Does the GPO pay fees or offer equity 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?

Capstone does not pay fees or offer equity to members upon signing or re-signing of a participation agreement or to the joining or renewal in the GPO program.

BID AND AWARD/CONTRACTING ISSUES

16. Does the GPO have a publicly-available description of its bid and award process? If so, provide a link and written description of your bid and award process. If not, describe how it may be obtained.

This availability will be included in the revamping of our website targeted for completion by October 30th, 2019.

Capstone has instituted the Contract Oversight Committee (formally known as the Materials Management Committee) which reviews contracts awarded by our primary GPO (Premier) and Capstone local agreements on a monthly basis. This committee's structure is comprised by fourteen members from different areas of the country, different size hospitals and/or systems, with also representation from the non-acute market.

This committee reviews spend data and member participation in each category as well as the quality of the supplier's products and/or services, sales representation, service levels, backorders, etc. if there are performance issues.

Contracts and the appropriate tier or pricing levels are than awarded; which then is communicated to the general Supply Chain membership in a monthly webinar to provide information and encourage feedback.

17. Describe the GPO's requirements for how products or services are published so they are accessible to potential vendors. If a bidder is not awarded a contract, is that bidder able to review the decision criteria used to evaluate the bid? Include in your response a general description of the GPO's criteria for vendor selection.

It is referenced on our website that Capstone utilizes Premier as our national GPO and as noted here that we follow Premier's contract awards on a monthly basis with our Contract

Oversight Committee. Our local contract's categories and effective & expiration dates will start to be published on our soon to be revamped website towards the end of October 2019.

Our process for suppliers submitting a Supplier's Application on our current website and not considered for a contract at that time is that an email is sent to the supplier notifying them of the decision with the reason of why.

The Supplier Application asks for information which includes their company overview, products and services, Capstone's membership annual spend, HUB classification (if applicable), GPO affiliations, whether their products are manufactured in the U.S.; and whether they have ever been excluded or listed on the Federal Government's ELPS, the OIG, or the Treasury Department's OFAC.

Our contracting criteria can vary depending on the product or service, but the constant variables include market share within Capstone, Premier, and on a national level; spend within Capstone's membership, can they support the entire membership, is this category already covered under Premier agreements, can the product be considered as a "Breakthrough Technology"?

Depending on the category... all contracting decisions will be reviewed and communicated to the applicable member workgroup (i.e. Supply Chain, Laboratory, Pharmacy, Surgical Services, etc.), our Contract Oversight Committee, Purchased Services Oversight Committee, or an ad-hoc task force created to help us in our review and award decision.

18. Describe the GPO's policy with regard to the use of single, sole, dual, and multi-source procurement and provide an example or two to support use of these contracting tools.

The type of contracts referenced above are awarded by our Contract Oversight Committee's recommendations that can be based on numerous criteria such as market share within the membership, product availability across the membership, pricing, service levels, etc.

Single or sole awards make up an extremely small percentage of our contract portfolio, while dual and multi-source awards are a majority due to our number of hospitals & systems across the country. Members always have the opportunity and flexibility to utilize additional suppliers in all categories if they choose.

Our philosophy for strategic physician preference categories is that we try to structure these agreements with individual market share participation that with the higher percentages drives the more beneficial pricing & value for that member. It does not necessarily limit the member's selection of suppliers unless the supplier does not want to participate in this type of agreement structure.

We follow our primary GPO (Premier) and their contracting calendar and awards... and mostly adhere to their supplier selections within. It is at our members request to add additional suppliers, usually when a supplier is not re-awarded an agreement and the membership does not wish to convert their products.

One example of when we did encourage members with a sole source opportunity is in the Pharmacy area with Albumin. We solicited proposals from four suppliers which were reviewed and clarifications addressed from the Capstone contracting team responsible for Pharmacy. This was then brought to the entire Pharmacy Workgroup through a webinar to review said proposals and look to the membership for consensus on a sole source award.

19. Does the GPO permit bundling of unrelated products or services from the same vendor or from different vendors? If so, under what circumstances would the GPO consider bundling to be appropriate?

Capstone does not pursue the bundling of unrelated products, but will review such a proposal to ascertain the value to the membership.

20. Describe the process for contracting for clinical preference items. Describe the GPO's policy guiding the appropriate length/term of contracts for clinical preference products.

Clinical preference products are contracted in the same way as all others as previously explained in being reviewed through our Contract Oversight Committee and/or an ad-hoc task force. "Breakthrough" technologies are welcomed and considered, although vetted through our membership.

The length of these contracts, like most of our others, will be for three years.

ADMINISTRATIVE FEES

21. What is the GPO's practice regarding the amount of administrative fees accepted? If there is a written policy, please provide an electronic link or copy of the GPO's policy regarding these fees.

Capstone does not accept administrative fees above 3% under the GPO with a couple of exceptions, but our overall average is below 3%... we do, however, charge marketing fees above 3% under the non-GPO CSI (non-healthcare) business unit.

The link will be provided when our website is completed by October 31st, 2019.

22. Describe the conditions in which the GPO accepts administrative fees beyond 3 percent, requiring specific (not blanket) disclosure under the Federal Regulatory Safe Harbor provisions?

As referenced above in #21, the couple of exceptions is when these agreements have provided exceptional value to our membership. These limited exceptions are disclosed annually to the applicable participating members.

23. Describe the range of administrative fees accepted and examples of the types of contracts (without specifying specific proprietary information) that have administrative fees greater than 3 percent.

The two examples referenced above are a beverage solutions program and employees benefits insurance programs with fees at 10% of 9% and 10% of commissions.

PRIVATE LABEL PROGRAMS

24. Describe whether the GPO has a private label program and if so, describe the products the private label program covers.

No private label programs at Capstone.

25. Describe the GPO's practice regarding administrative fees derived from a private label program.

No private label programs at Capstone.

VENDOR GRIEVANCE PROCESS

26. Describe the GPO's policy and process with respect to responding to a vendor's grievance regarding the bid/award process.

An interested person may make contact the VP of Finance & Corporate Compliance with a complaint regarding a transaction or arrangement during the bid/award process. After investigating and discussing with vendor, there may be involvement with the Executive Team and/or Board of Directors of Capstone. After exercising due diligence and determining that the situation cannot be resolved with vendor, the Compliance officer will determine whether the claims are substantial enough to cancel the agreement.

27. Did any supplier, since submission of the last GPO's Public Accountability Questionnaire, request an evaluation pursuant to the HGPII Independent Evaluation Process? If so, please provide information regarding the outcome of such evaluation.

No... this is our first submission of the Public Accountability Questionnaire.

28. Does the GPO participate in HGPII's Independent Evaluation Process?

Yes

29. Is the HGPII Independent Evaluation Process displayed on the GPO's public website? If so, please provide an electronic link to this information.

We'll provide a link on our revised website to the HGPII website identifying the vendor grievance review process.

INNOVATION

30. Describe the GPO's policy and process to evaluate and provide opportunities to contract for innovative products and services.

Capstone is always open to vetting suppliers with new and innovative products or services through our Supplier Application process.

The Supplier Applications are reviewed by the Contracting Team on a bi-monthly basis, and if we feel their products & services can be of value to our members, we present these potential opportunities to the various work groups that we have established for their recommendations. This process is for ALL suppliers wanting to present their products and services to Capstone and our membership.

31. Does the GPO have the right to enter into a GPO contract for innovative technology at any time during its bid and award cycle? Describe the process the GPO has for fostering the development of GPO contracts for innovative products.

Yes... we can enter into a new contract at any time. There is not a formal process for this, but we attend various conferences throughout the year (i.e. Federation of American Hospitals, IDN Summit, Health Connect, HIDA, Premier Breakthroughs, etc.) all of which we participate in their Supplier Exhibition shows to hear of the Suppliers products & services.

32. Are GPO members allowed to evaluate products and/or communicate with vendors, regardless of whether a vendor has a contract with the GPO?

Yes.

33. Are GPO members allowed to purchase non-contracted products or services directly from non-participating vendors?

Yes.

VENDOR DIVERSITY PROGRAMS

34. Describe the GPO's program or activities that encourage contracting with Diverse Vendors (small, women-owned, veteran owned, minority-owned). Explain how you promote or market those programs to the GPO's membership and to Diverse Vendors.

Capstone always would like to support Diversity owned suppliers if possible, but our process in vetting all suppliers for member value is the same. We are going to identify our agreements in the future that have these classifications so our members will be aware.

35. Has the GPO increased contracting with Diverse Vendors over the prior year(s)? If so, quantify these increases within each Diverse Vendor category (SBE, WBE, VBE, and/or MBE).

Capstone has not tracked our numbers of Diversity suppliers in the past, but will begin to do so. Our current breakdown is the following: MBE 14, SBE 77, VBE 6 and WBE 8... 105 of 643 which is 16.3%. We are currently trying to identify these same classifications of our 130 Capstone local agreements.

36. Does the GPO have a Vendor Diversity Committee or other program or group for developing diversity goals and expanding opportunities? If so, describe. What are its mission, goals, and objectives? Does it work directly with the GPO's sourcing team in developing its goals and expanding opportunities? What are the Committee's significant achievements over the GPO's last fiscal year? If it is a Committee, who are its members and how frequently does it meet?

Capstone does not have a specific committee, but we will review Premier's diversity agreements and will look to our member's recommendations for both Premier and Capstone local agreement opportunities.

37. Does the program described in the previous question provide education to member health systems regarding diversity program best practices and/or how to establish a Vendor Diversity Program within their system? Does it solicit member feedback to ensure it is meeting member expectations?

Capstone does not provide education, it is at our member's discretion to participate in the contracting opportunities we provide.

38. Describe any other actions concerning Vendor Diversity you think are important that are not covered by the preceding questions.

None at this time.

ENVIRONMENTALLY-PREFERRED PRODUCTS AND SERVICES

39. Have members of your GPO expressed a preference for environmentally-preferred products and services?

On occasion, but not very often. It's very much like the diversity programs that each member has set their own expectations.

40. Describe your GPO's approach in identifying and satisfying the desires of your various members for environmentally-preferred products and services. Provide examples of environmentally-preferred products and services within your current portfolio.

This has not been a target for us in identifying these types of products, nor have we been asked from the membership to do so. However, we do have agreements in place that include these types of products and the suppliers can highlight their products in what we call our "Contract Summary Sheet". This is typically a one or two page "Flyer" that

references the contract information and highlights the product or services the suppliers wish to include. This document is used by the supplier representatives and the Capstone Region Managers in presenting consistent information to our members.

41. What challenges, if any, have you experienced in identifying or contracting for working a variety of environmentally-preferred products and services to your members? How have you responded to such challenges?

We have not experienced any challenges to date.

42. Has your GPO designated someone to:

- Identify your GPO's environmentally-preferred objectives;

No

- Explore environmentally-preferred products and services; and/or

No

- Develop initiatives to help educate your members about the value of using environmentally-preferred products and services?

This information has been mentioned in supplier presentations to our membership.

CODE OF CONDUCT

43. Provide a copy of and an electronic link to your GPO's written code of business ethics and conduct. Describe any changes made to it from the previous HGPII reporting year.

This is our first-year reporting. We will provide the link when our website is completed.

44. 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. How often is the code of conduct provided to employees? Do employees receive annual refresher training on the GPO's ethics and the code of conduct? Describe the content of the training and the method of delivery.

An annual Confidentiality Agreement, Non-Disclosure Agreement, and Code of Ethics and Conduct are reviewed, signed and dated by each Capstone employee.

45. 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.

Violations can be reported at any time to the Vice President of Finance & Corporate Compliance. Whistleblower protections are described in the Code of Ethics and Conduct

that employees sign off on annually. These protections include two important areas – confidentiality and retaliation for the employee reporting an incident. Reportable incidents will be investigated promptly and professionally.

REPORTING POTENTIAL ETHICAL VIOLATIONS

46. What process is used to protect the confidentiality of the reporting employee's identity and what safeguards are in place to mitigate the opportunities for retaliation?

An employee's identity will be protected and held confidential by the VP of Finance and Corporate Compliance and any Executive Leadership involved. When an incident is reported, an investigation will ensue. Depending on the seriousness of the offense and the violators discussed, there may be discussions with Executive Leadership in which continued confidentiality will be emphasized. This process is stated in the Code of Ethics and Conduct that employee's sign and receive training on annually.

47. Describe how the GPO follows up on reports of suspected violations of the code of business ethics and conduct to determine if a violation has occurred and if so, who was responsible. Describe corrective and other actions taken in such circumstances.

Any investigation on violations of the Code of Ethics and Conduct will begin with review of relevant documents and interviews with appropriate personnel. Any employee who is found to have committed a compliance violation will be subject to disciplinary action up to and including termination.

48. Describe the processes the GPO follows up on, to monitor on a continuing basis, adherence to the written code of business ethics and conduct, and compliance with applicable federal laws.

Capstone promotes compliance with all laws, rules and regulations as well as standards on ethical conduct. Employees sign off on policies on Confidentiality, Conduct and Ethics annually as well as receiving training. The Vice President of Finance and Corporate Compliance is housed at the Corporate Office and is always open for discussion with employees on any compliance matter. Travel and expense reports are reviewed by the Staff Accountant for any questionable items and reviewed with the Vice President of Finance and Corporate Compliance. Bid and Awards are also reviewed for any undue preferences.

49. Are periodic reports on the GPO'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? Are periodic reports on the company's participation in HGPII made to the GPOs Board of Directors or to a committee of the Board? If so, please state how often and in general, what information is reported.

A report is given annually to the Board or CEO from the Compliance Officer providing an update on the Compliance Program.

50. How many of your GPO employees attended the most recent Best Practices Forum?
Include the name of the most senior executive who attended.

Two in 2019... Mark Landau, Chief Operating Officer & Sonya McCall, VP Finance & Corporate Compliance

51. List the name, title and contact information of the senior manager assigned responsibility to oversee the business ethics and conduct program. Provide the name, title and contact information for the individual(s) responsible for responding to this report.

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