



**2019**

---

# ANNUAL COMPLIANCE REPORT

# ANNUAL COMPLIANCE REPORT

## 2019 | A YEAR IN REVIEW

### TABLE OF CONTENTS

Key Highlights for the Year.....	3
Leading with Integrity.....	4
Corporate Compliance Program.....	4
Conflicts of Interest.....	5
Industry Involvement.....	6
Governance Areas.....	7
Privacy.....	7
Risk Management.....	8
Education.....	9
Group Purchasing.....	10
Administrative Fees.....	10
Vendor Rights and Responsibilities.....	10
Disclosure of Vendor Payments.....	10
Supplier Diversity.....	10
Contracts Greater Than 36 Months.....	11

*To advance the highest standards of ethical behavior and integrity, and to ensure compliance with all applicable laws, rules and regulations.*



## KEY HIGHLIGHTS FOR THE YEAR

### Alan C. Sauber

Chief Ethics & Compliance Officer



The Corporate Compliance team continues to work across our business segments in support of their needs and to ensure that risk is managed through a thoughtful and prospective manner. The team also works diligently to keep the company compliant with the regulatory and certification needs of the business. Some of the main accomplishments for the year are highlighted below.

- Named one of the World's Most Ethical Companies by Ethisphere® Institute for the twelfth consecutive year.
- Secured 100% completion of employee annual compliance education.
- Transitioned our confidential, third-party reporting portal to a new vendor, Convercent. Rebranded these services as the "WorkSmart Integrity HelpLine".
- Implemented the WorkSmart Compliance Portal which is a one-stop shop for all workforce compliance matters including conflict of interest disclosures, compliance education courses and company policies and procedures.
- Streamlined HIPAA assessments and enhanced the outcome to include data mapping and record retention best practices to assist the business in finding savings and efficiency with archiving data logs.
- Reworked the Premier Impact Assessment (PIA) process to make it more business friendly. This reduced the workflow from a four to a two week process.
- Implemented California Consumer Privacy Act (CCPA) readiness across all of Premier including regulatory efforts toward a more favorable legislative amendment. Drafted responses in collaboration with Government Affairs regarding proposed changes to HIPAA, 21st Century Cures Act and Interoperability of Data, FDA changes and mandates affecting Clinical Decision Support Tools, and reviewed and edited letters to related legislators in California regarding proposed amendments and changes to CCPA.
- Applied data loss prevention strategies to include blocking access of Premier workforce to their personal email on a Premier asset; blocking PHI from being sent unencrypted through a Premier email, negotiating a Premier corporate Dropbox account and blocking the use of personal Dropbox and similar accounts across Premier; creating the ability to label and more appropriately classify data.
- Created Premier specific HIPAA education for all employees and accomplished 100% compliance including Premier subcontractors, and performed department specific HIPAA and best practice confidential data education for internal Premier employees (PPP and executive administrative assistants, and QA operations).
- Completed 2 SOC (Systems Organization Controls) documents in support of attestation letters from Ernst & Young to meet our client contractual obligations.
- Attained Federal Information Security Management Act (FISMA) third-party certification to qualify Premier to continue to do business with government agencies.
- Established a custom enterprise IT control framework comprised of the most stringent federal and international criteria from all of Premier's obligations to ensure all regulatory and contractual expectations/obligations are addressed.
- Implemented a formal IT Risk Management program that reviews, evaluates, monitors and manages the performance of Premier's IT controls imposed on the organization.

# LEADING WITH INTEGRITY

## Corporate Compliance Program

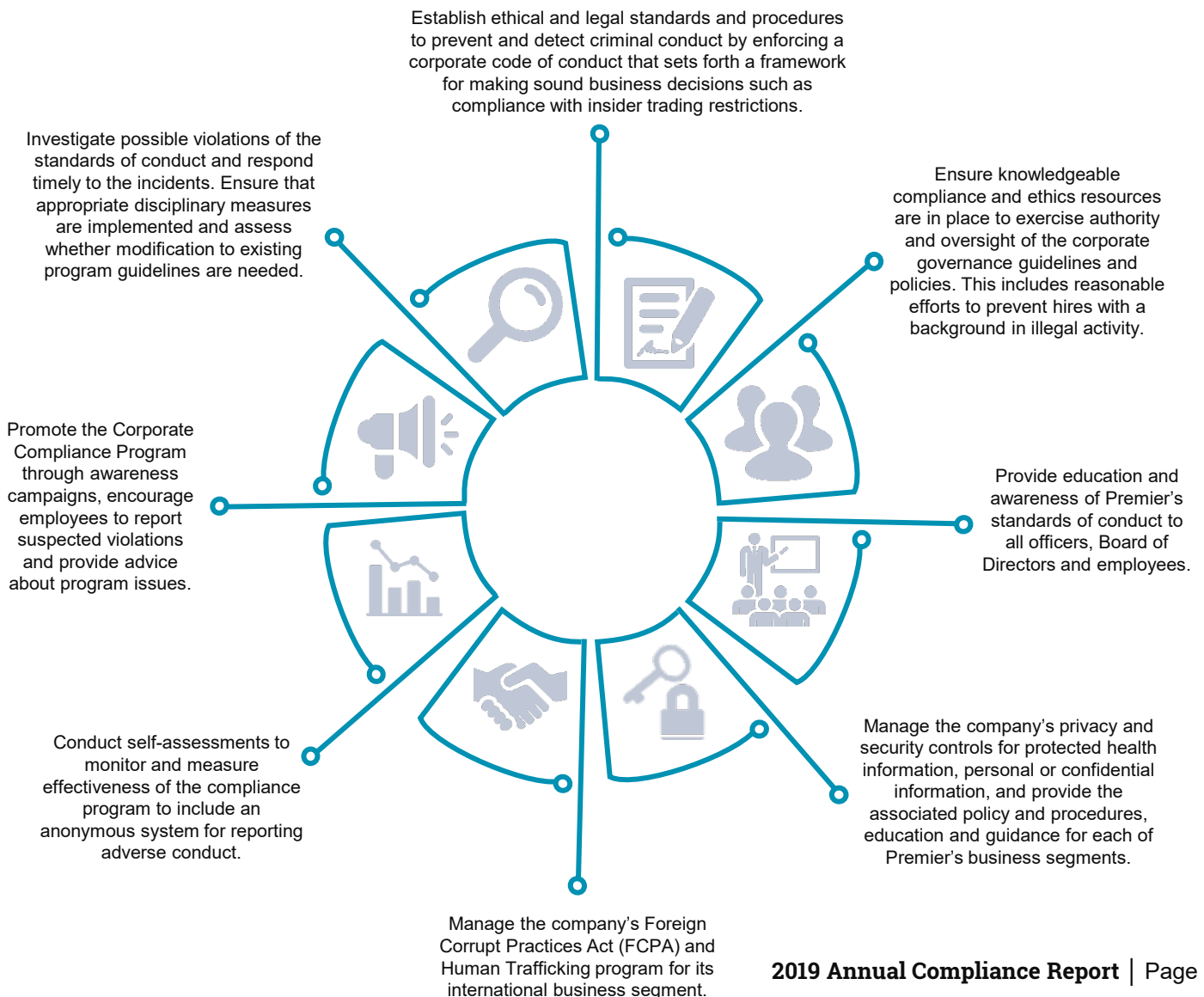
Premier's Board of Directors and executive leadership team play a critical role in promoting and maintaining a culture of integrity. Our continued success depends on each of us doing the right thing, including adhering to effective principles of ethics and legal business practices. Premier's Corporate Governance Guidelines and policies ensure that we operate in accordance with applicable laws and regulations for a publicly traded company including the security of proprietary, sensitive and protected health information as well as compliance with insider trading restrictions and other securities laws.

## Board of Directors

The Corporate Governance Guidelines assist Premier's Board of Directors in the exercise of its duties and responsibilities and to serve in the best interest of the Company and its stockholders. Key areas for Directors include the Board Code of Ethics, Board Conflict of Interest Policy, Conflict Advisory Committee, conflict of interest attestations, education and quarterly dashboard reporting.

## Company

For employees, Premier sets forth its framework for operating its businesses in an ethical and compliant manner through Premier's Corporate Compliance Program. This program aligns with the Federal Sentencing Guidelines, ensures that policies and internal controls are user friendly, and meets emerging compliance and ethics standards.



# Conflicts of Interest

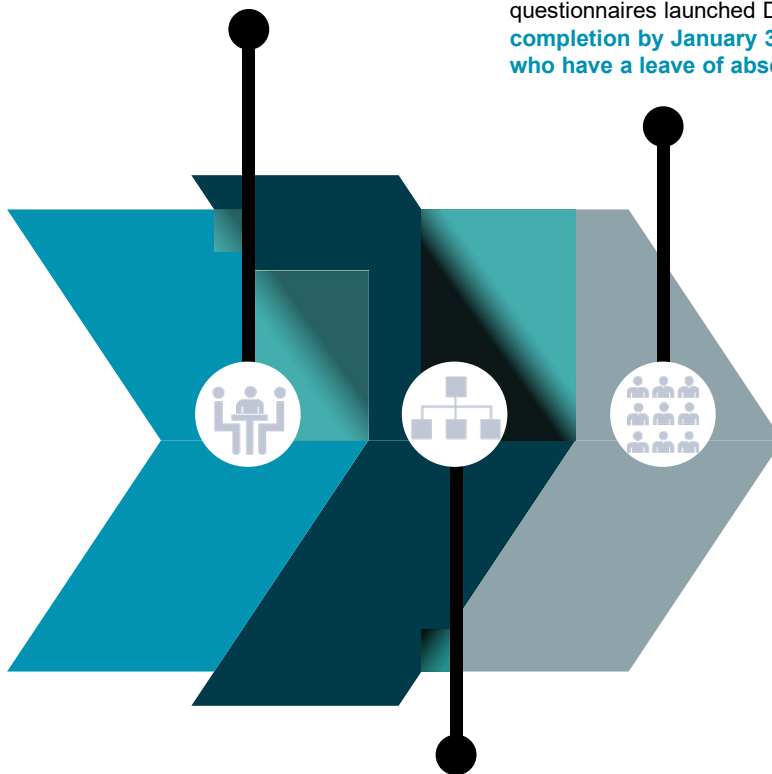
Premier's comprehensive policies and procedures are designed to ensure that employees, Board members, and non-employee committee and subcommittee members adhere to strict conflict of interest disclosure, divestiture and/or recusal requirements.

## Board of Directors

Board members annually disclose potential conflicts that they and/or their immediate family member or related party may have. Conflicts may include affiliation with or managerial, consulting or employment relationships, personal, equity or other financial interests, compensation relationships with any company, vendor or firm and use of non-public information, Premier property and assets. **In 2019, 100 percent of all directors disclosed and resolved their conflicts of interest in accordance with company policy.**

## Employees

Premier's Group Purchasing Code states that no employee of Premier or any Premier entity should own equity in any participating vendor. Upon hire, an employee is educated on both The Value of Integrity | Code of Conduct and Group Purchasing Code of Conduct. Employees complete a conflict of interest questionnaire upon hire and annually thereafter. If an employee owns an equity holding that is not permitted, he/she must disclose the conflict and then follow the Corporate Compliance department's prescribed steps to resolve it. Company-wide annual conflict of interest questionnaires launched December 13, 2019. **Goal is 100% completion by January 31, 2020 excluding employees who have a leave of absence.**



## Member Committees

Sourcing committee and advisory subcommittee members disclose any potential conflicts annually and before all meetings or discussions. Premier's policy does not allow sourcing committee or advisory subcommittee members and/or their immediate family members to have extensive equity in a participating vendor. **In 2019, 100 percent of all committee and subcommittee members disclosed and resolved their conflicts of interest in accordance with company policy.**

# Industry Involvement



## Recognition

For the twelfth consecutive year, Premier was named by the Ethisphere® Institute as one of the World's Most Ethical Companies. We were selected for this honor from among tens of thousands of companies around the world. A global leader in defining and advancing the standards of ethical business practices, the Ethisphere® Institute recognized Premier for continuing to raise the bar on ethical leadership and corporate behavior. Premier was the only company in the health information services industry recognized this year.



## Promotion

The Healthcare Group Purchasing Industry Initiative (HGPII), a voluntary association dedicated to ethical conduct and business practices, and to serve the confidence of the public and government officials, consists of ten GPOs who each commit to having its business practices be transparent to its customers, vendors and to the public and answer a comprehensive annual questionnaire known as the Public Accountability Questionnaire. This questionnaire requires detailed responses about ethics, compliance and contracting procedures.

On an annual basis, HGPII holds a Best Practices Forum for member GPO executives to share ideas, and work to improve ethics and compliance programs with their stakeholders. Forum participants include federal policymakers, ethics experts and a cross-section of healthcare supply chain vendors who gain knowledge about ways GPOs can improve communication with regulators and increase transparency to stakeholders and the general public. David Hargraves, Senior Vice President Supply Chain, was elected as the incoming chair for the new term. This will help Premier further advance our best practices within our supply chain segment of the business.



## Affiliation

To foster and promote industry-wide adoption of compliance best practices, Premier Corporate Compliance staff participate and are members of the following professional organizations: Society of Corporate Compliance and Ethics (SCCE); International Business Ethics Institute; International Association of Privacy Professionals (IAPP), American Health Information Management Association (AHIMA), Information Systems Audit and Control Association (ISACA); Information Systems Security Association (ISSA); American Institute of Certified Public Accountants (AICPA); Payment Card Industry-Security Standards Council (PCI-SSC); InfraGard. International Information Systems Security Certification Consortium (ISC<sup>2</sup>)

Premier's Chief Ethics & Compliance Officer participates in ongoing benchmarking, industry networking initiatives and speaking engagements including the Steering Committee and Working Group of the Healthcare Group Purchasing Industry Initiative (HGPI) and Quinnipiac University.

# GOVERNANCE AREA: PRIVACY

## California Consumer Privacy Act

The California Consumer Privacy Act (CCPA), signed into law in 2018 with an effective date of Jan 1, 2020, applies to for-profit entities that collect and process Personally Information (PI) of California residents and do business in the State of California that meet certain monetary and scope of business criteria. The CCPA includes a broad definition of “personal information,” much broader than typical privacy-related laws normally seen in the United States. The sharing of “personal information” obligates businesses to push down contractual limitations on service providers and other recipients of personal information and to offer California “consumers” the right to opt out of disclosures that qualify as a “sale” as that term is broadly defined under the CCPA. Businesses that are not fully prepared to comply with the CCPA’s sweeping restrictions on the handling of consumers’ personal information face severe financial penalties. In consideration of Premier’s applicability to this law, Premier’s Privacy team has mapped inventories of Personal Information and identified the collection, use, sale and sharing of Personal Information within Premier applications. Premier’s Privacy team updated the external facing privacy policy to meet the mandates of CCPA; created multiple means by which CA “consumers” can request the deletion or accounting of their Personal Information, including an “opt out” option on our cookie banner for Premier’s external sites; secured an opinion from our external statistician stating that our de-identified database does not qualify as Personal Information under CCPA, and reviewed agreements with Premier’s external service providers to ensure the data rights granted are within compliance of CCPA. CCPA is the first of a coming wave of consumer data privacy regulations at the state level. In 2019, several other states, such as Maine and Nevada, passed smaller, but significant, laws. Data privacy legislation was also a major focus for state governments in New York, Massachusetts, Texas, and Washington. Premier’s presence in the national marketplace requires knowledge of, and compliance to, the varying state requirements. Premier’s Privacy Team is collaborating with the Government Affairs group to monitor the latest state privacy developments, proposed amendments, and the passing of laws, and to participate in efforts to lobby for the amendment of such laws in order to protect the interests of our Customers and in the support of health care research initiatives.

## Federal Privacy Laws

There is an expected increase in momentum toward a federal privacy law in 2020. Two primary federal privacy bills being discussed are the Consumer Online Privacy Rights Act (COPRA) and the United States Consumer Data Privacy Act (CDPA). The two proposals share several similar requirements, including “affirmative express consent,” more transparent privacy policies, increased data security measures, designated privacy officers, and mandatory data privacy risk assessments. The major differences between the two are 1) COPRA calls for the establishment of a separate agency under the FTC to enforce the law, while the CDPA leaves enforcement to the FTC, and 2) COPRA includes a private right of action, which would allow private citizens to bring their own lawsuits against an organization that violates compliance. Premier’s Privacy team has performed assessments on all applications that contain PHI, and has compiled information from internal assessments for the remaining applications regarding the type of data that is obtained, how it is used and with whom it is shared. This information will assist Premier in measuring its risk and prepare for the two proposed federal laws. Premier’s privacy team will continue to participate in the Confidentiality Committee meetings and participate in responses for comments to proposed laws, as well as partnering with Premier’s Government Affairs to appropriately lobby for proposed amendments or enhanced language in federal laws. Monitoring these laws and the similarities between them will help with future compliance efforts as Premier builds out its 2020 data and privacy approach.

## Data Loss Prevention

When it comes to data loss, human error plays a critical role. Whether through carelessness or ignorance, employees often make mistakes that compromise a company’s data security. Employees often overlook or disregard data protection practices and transfer sensitive data over cloud storage services, by email or through messaging applications. DLP enforces remediation with alerts, encryption, and other protective actions to prevent end users from accidentally or maliciously sharing data that could put the organization at risk. In an effort to continue to reduce the risk of data loss for Premier, Premier’s Privacy and Information Security/CloudSecurity teams have continued to develop and expand Premier’s Data Loss Prevention (DLP) by: (i) scanning every outgoing Premier email and documents for sensitive information including PHI and blocking the sending of an email with sensitive information if it is not going through Premier’s secure tools and methods; (ii) blocked the access to personal email account from a Premier asset; and (iii) will block access to private “box” accounts and will only allow the use of a corporate Dropbox account which shall have Premier’s security tools and methods implemented. Efforts in 2020 shall include enabling the ability to scan outgoing Premier e-mails and documents for sensitive information prior to sending. E-mail and documents identified as having confidential information will be automatically encrypted and sent through Microsoft 365 requiring the end user to enter a one-time passcode to view the contents. In addition, Premier employees will soon have the ability to classify their e-mails and documents and select specific methods to further secure and encrypt the data while sending to internal or external parties.

# GOVERNANCE AREA: RISK MANAGEMENT

## IT Risk Management

Premier maintains a formal IT Risk Management program to identify, assess, mitigate, report and monitor security risks across the enterprise. Premier's IT Risk Management and Compliance team reviewed and evaluated the risks identified in the Governance, Risk and Compliance (GRC) repository. The Program phases included:



In an effort to ensure controls are effectively meeting laws and regulations and are performing in a way that does not jeopardize the achievement of Premier's business goals, Premier's IT Risk Management and Compliance team established an enterprise control framework providing common internal control criteria (policies, control objectives, standards and guidelines) that are directly mapped to Premier's regulatory and contractual obligations necessary to achieve business objectives. The design and effectiveness of the internal controls addressing those obligations are evaluated throughout the year by independent third parties.

The risk management and enterprise control program allows Premier to make informed decisions about its risk tolerance and how its most valuable information assets will be protected. It provides a holistic view of the acceptable degree of variability in control performance relative to achieving business goals, and the threats and vulnerabilities that could be exploited by people, technology, and process and controls required to protect the asset(s).

The risk management process is collaborative in nature with inputs from many stakeholders. The Business Owner is ultimately responsible for understanding the risks to information under his/her direction and making decisions about the implementation of required controls.

## Regulatory and Compliance

Worked with E&Y in performing the following engagements:

- First full-year SOC2 (Systems Organization Controls) Type 2 report for all products sold (except Stanson Health) performed for the period of January 1 through December 31, 2019 is coming to a conclusion. Type 2 designates that there is a test of effectiveness to ensure our internal controls over the security, availability and confidentiality of our systems perform as designed.
- First SOC2 (Systems Organization Controls) Type 2 report for Stanson performed for the period of July 1 - December 31, 2019 was concluded. Type 2 designates that there is a test of effectiveness to ensure our internal controls over the security of our systems perform as designed.
- A SOC1, Type 2 performed on PremierConnect Enterprise Resource Planning (ERP), PremierConnect Budgeting and Financial Reporting (BFR), and PremierConnect Sourcing and Contract Management (SCM). The SOC2 is more technology focused, whereas the SOC1 focuses on both technology and financial reporting controls.

## Additional Certifications and Assessments

- Completed Premier's 2019 FISMA certification. This annual assessment requalifies Premier to do business with government agencies as a prime contractor.
- Performed the necessary assessments for the Payment Card Industry's Data Security Standard (PCI-DSS) for those segments of the business that accept credit cards as payment.
- Continued IT Sarbanes-Oxley (SOX) testing with control owners.



# EDUCATION

## Board Governance

## Education

The following is a summary of the compliance educational programming completed in 2019.

Board members completed an online course that reviewed the Board Code of Ethics, Insider Trading Policy, Conflict of Interest Policy, Compliance Policy, Anti-Bribery Policy and Human Trafficking Policy. In addition, this course provided an overview of governance, risk and compliance. **In 2019, 100 percent of the Board of Directors completed governance education.**

## Employee Compliance

As part of Premier's annual compliance education, employees completed an interactive course that provided an overview of our Code of Conduct. It explained why we have a Code and employee responsibilities related to our Code. The course reviewed the following compliance topics: careful communications, ethical leadership, information security, insider trading and social media. **In 2019, 100 percent of employees completed this education.**

## Group Purchasing Code of Conduct/Confidentiality Policy/Conflict of Interest Policy/Insider Trading Policy

All sourcing committee and advisory subcommittee members received education this year on Premier's Group Purchasing Code of Conduct, Confidentiality Policy, Conflict of Interest Policy and Insider Trading Policy. **In 2019, 100 percent of committee and subcommittee members completed this education.**

## Anti-Corruption and Human Trafficking

Premier continued to engage the International Business Ethics Institute to develop and deliver the annual education to review Premier's Anti-Bribery and Human Trafficking policies, and increase knowledge of when and where to seek advice. **In 2019, 100 percent of S2S Global employees completed anti-corruption and human trafficking education.**

## Medicare Parts C and D Fraud, Waste and Abuse (FWA) and General Compliance

As part of Premier's annual compliance education, employees completed online education courses on Medicare Parts C and D FWA and general compliance programs to satisfy the Medicare Parts C and D plan Sponsors annual general compliance education requirements per the Code of Federal Regulations (CFR) and sub-regulatory guidance. **In 2008, 100 percent of employees completed this education.**

## Health Insurance Portability and Accountability Act (HIPAA) Awareness

Workforce members completed company-wide HIPAA awareness education on how to properly obtain, use, share, maintain and transfer protected data. **In 2019, 100 percent of workforce members completed this education.**

# GROUP PURCHASING

## Administrative Fees

Premier's administrative fees are standardized for each competitive bidding process and product or service category, and stated in advance to all bidders in a category, unless economic conditions require a different structure in the best interest of members. Our group purchasing agreements do not impose up-front administrative fees from participating vendors and prohibit administrative fees in the form of vendor equity.

In April 2016, the Code was updated to eliminate section *10.g. Cap on Administrative Fees*, bringing Premier in line with its principal competitors. During calendar year 2019, 9% of Premier contracts had administrative fees above 3% compared to 6.5% in 2018. All fees are disclosed and reported per Federal Regulatory Safe Harbor provisions.

## Vendor Rights and Responsibilities

Premier's success is firmly rooted in developing mutually beneficial relationships with its vendors. With positive working relationships with the vendor community, Premier can successfully fulfill our integral role in serving our alliance members. An important part of our business relationship with vendors is how we conduct ourselves with each other. Premier's Supplier Guide outlines these expectations including a statement of vendor rights and responsibilities and is publicly available on Premier's website.

Premier takes vendor grievances seriously and offers a number of ways to resolve possible issues. First, Premier has its own vendor grievance process to ensure a vendor's ability to access Premier's contracting staff and leadership to address concerns, grievances or complaints relating to the contracting award process, contract award decisions or any other concerns. A vendor may also submit an inquiry related to the contracting process or award decisions. In the vast majority of instances, this process is sufficient to address a vendor's concerns.

Upon completion of Premier's vendor grievance process, a vendor may request further review of any outstanding concerns through the [Heathcare Group Purchasing Industry Initiative \(HGPII\) Independent Evaluation Process](https://hgpii.com/what-we-do/) (<https://hgpii.com/what-we-do/>). In order to facilitate the HGPII Evaluation, HGPII utilizes the services of the American Arbitration Association® (AAA), an organization that provides alternative dispute resolution services. Premier's vendor grievance process is not intended to waive any rights the vendor or Premier may have related to the enforcement of binding arbitration or any other legal rights and remedies.

## Disclosure of Vendor Payments

Consistent with Medicare safe harbor rules pertaining to the reporting of GPO administrative fees, Premier annually discloses to its alliance members the amount of administrative fees received with respect to purchases made by or on behalf of the member through Premier's group purchasing agreements. In its annual financial reporting to alliance members, Premier also discloses the aggregate vendor payments.

Premier may engage in business relationships with participating vendors which include the sale of Premier products and services to participating vendors or any other type of arrangement where money flows from participating vendors to Premier. A participating vendor is a company that has a contract, or submits a formal bid or offer to contract, to provide goods or services to alliance members. These relationships have no bearing on GPO contracting decisions and are publicly disclosed on Premier's company website. This disclosure does not include business relationships that exist to purchase goods and services that are utilized by Premier to carry out its general business operations so long as the terms of the arrangements reflect fair market value for the goods being purchased.

## Supplier Diversity

As an organization built on the foundation of transforming healthcare within communities across the country, Premier recognizes that supplier diversity is an important component of our members' success. Diverse suppliers help our hospitals create jobs and improve life in the communities they serve.

Premier's Supplier Diversity Program supports our members by:

Ensuring diverse suppliers are proactively considered for contracting opportunities.

- Supporting and facilitating procurement from diverse suppliers.
- Encouraging contracted suppliers to support and procure from diverse suppliers.
- Increasing the number of small, diverse and regional enterprises doing business with members of the Premier alliance through Premier's Sourcing Education and Enrichment for Diverse and Small Suppliers (SEEDS) Program.
- Including diverse suppliers in our contract portfolio. In 2019, 15 percent of Premier's contract portfolio was comprised of diversity suppliers and included agreements with minority, women, veteran and small business enterprises.

## Contracts Greater Than 36 Months

Premier's Group Purchasing Code of Conduct requires that any contract with an initial term longer than 36 months or a contract extension beyond 36 months be approved by senior management and that notification of such contracts be provided to the Board of Directors. Contract extensions occur for several reasons, the most common of which are listed below along with a summary of all calendar year contracts and extensions greater than 36 months.

Reason	Number of Product Categories
<p><b>Strategic:</b></p> <ul style="list-style-type: none"> <li>• Merger of suppliers within a product category.</li> <li>• The need for price stability.</li> <li>• The pending release of new technology within a product category that will significantly change the market.</li> <li>• Economic benefits to Premier members.</li> </ul>	23
<p><b>Product Category/Contract Alignment:</b></p> <ul style="list-style-type: none"> <li>• The need to make contracts within a product category coterminous across vendors.</li> <li>• Strategic alignment of product categories that need to be sourced concurrently.</li> </ul>	7
<p><b>Calendar/Workflow Balancing:</b></p> <ul style="list-style-type: none"> <li>• Workflow balancing requirements in order to optimize resources in sourcing, such as leveling contracts across the contract calendar.</li> </ul>	5



Premier Inc. (NASDAQ: PINC) is a healthcare improvement company uniting an alliance of approximately 4,000 U.S. hospitals and health systems and more than 175,000 other providers and organizations. As an industry leader, Premier has created one of the most comprehensive databases of actionable data, clinical best practices and efficiency improvement strategies.

Our award-winning and revolutionary technologies enable our members to collaborate more easily and efficiently. Our goal is to improve our members' quality outcomes, while safely reducing costs. By engaging members and revealing new opportunities, we empower the alliance to improve the performance of healthcare organizations, helping them do what they do best, Heal First™.

Named one of the World's Most Ethical Companies® 12 years in a row, we are well-equipped to help health systems thrive. Premier. Transforming Healthcare Together.