FAVORABLE

OIG WATCH

18-07

GPO serving both affiliated and unaffiliated facilities under uniform terms

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What OIG Said

OIG said a GPO can serve facilities under common ownership if affiliated facilities are the minority, everyone gets identical contract terms, and the arrangement creates legitimate cost savings through volume purchasing.

- ✓ A GPO that served 100+ independent hospitals wanted to add 31 hospitals owned by its parent company as members, giving them access to the same negotiated discounts on specialized products and services (IT platforms, physician staffing, telemedicine, equipment).

- ✓ This technically falls outside the GPO safe harbor because the safe harbor requires that GPO members not be owned by the GPO's parent - but OIG evaluated it on the facts and said the risk is acceptably low.

- ✓ OIG approved it because: (1) affiliated facilities would be only 35% of members and 20% of purchasing volume, (2) all members get identical contract terms and the same 3% administrative fee structure with full annual disclosure, (3) the GPO doesn't share administrative fees with members, and (4) adding volume increases purchasing power and drives better discounts for everyone.

- ✓ The arrangement delivers measurable cost savings (18% below competitor GPO pricing) that flow through to reduced costs for federal programs - proving it's about legitimate purchasing efficiency, not steering business to affiliates.

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Diligence Checklist

What you need to be ready to show in diligence

- ✓ Prove that affiliated and unaffiliated participants get identical contract terms, pricing, and access to negotiated discounts - no preferential treatment for entities under common ownership.
- ✓ Show that affiliated entities are the minority of the arrangement (in both member count and transaction volume), so the structure isn't just routing business to captive affiliates.
- ✓ Document that administrative fees or revenue sharing follows disclosed, uniform formulas - not hidden payments or selective distributions that could look like inducements to affiliated parties.
- ✓ Demonstrate actual cost savings or value creation through volume purchasing, not just administrative fees being collected from vendors while affiliated entities steer business.
- ✓ Keep written agreements with full annual disclosure of fees received from each vendor, and prove you're not sharing vendor fees with members in ways that create inducement risk.

If your purchasing arrangement, management services platform, or shared services model involves affiliated entities alongside independent participants, this is what OIG will evaluate: uniform treatment, minority affiliated participation, disclosed fee structures, and proof of legitimate value creation.

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Structure not diligence-ready?

Cabra Consulting helps healthcare organizations make sure compensation and transaction structures are independently valued, clearly scoped, and defensible in diligence.

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