News for Advocates:

What you don't know can hurt you . . .

We welcome readers to submit brief information from news reports that are of importance to advocates and patients, but that may not be widely circulated. Our "heads up" report this month has to do with conflicts of interest that affect both hospital finances and patient care.

In a multi-part investigative series, the *New York Times* has been reporting on "Medicine's Middlemen," the relationship between hospitals and the buying groups they entrust to purchase the best quality medical products for the lowest price. The *Times* reporters describe how two large buying groups—Premier and Novation—control purchasing for 1500 hospitals each. These purchasing groups are funded by the very companies they are suppose to evaluate. Their fees are a percentage of the millions of dollars in hospital purchases they arrange. The more the hospital buys, the more the middlemen—the hospital purchasing groups—get from the suppliers. In some cases Premier and Novation also hold shares or options in the supplier's company, or individuals top executives in buying groups hold these options. Small companies that produce a new and improved technology may be shut out of the market, especially if they cannot afford—or refuse to pay fees or give options to the large buying groups. In these cases, Premier or Novation will contract exclusively with a competitor, even if the competitor does not produce a product of comparable value. Not only is the small company then put in financial jeopardy, but patients may be harmed because the better product was not promoted by the purchasing group.

Large purchasing groups for hospitals will also actively promote companies in which they have a large investment. Premier helped establish American Pharmaceutical, one of the nation's largest suppliers of injectable drugs, and made sure it succeeded financially. Individual executives of Premier held stock options in American Pharmaceutical. Better quality drugs or, in some cases, cheaper generic cancer drugs may have been kept out of the market because of Premier's connection to American Pharmaceutical.

These conflicts of interest are not confined to buying groups. Child Health Corporation of America, with 28 member pediatric hospitals, evaluates medical supplies for children's' hospitals and gives a "seal of approval" to those products it endorses. Unlike independent evaluation groups like Consumers Union, however, Child Health *sells* its product endorsements. Endorsements are based on evaluations that are unscientific and secretive: products are not always tested against each other and nor are results of any comparative tests published. Like the large buying groups, Premier and Novation, Child Health both receives fees from medical product companies and invests money in these companies. Until recently it also manufactured pediatric supplies.

Why do hospitals support this system? Often they have cut their own buying staff, so must rely on contracts with an outside purchaser. More insidious is the practice of hospitals themselves getting thousands of dollars as their share of manufacturers' payments to the purchasing groups. And the hospitals that purchase through Premier and Novation include some of the most prestigious and trusted teaching hospitals in the country: Mount Sinai Medical Center in New York City, Georgetown University Hospital in Washington, D.C. and Yale University Medical Center in New Haven, Connecticut. Similarly the children's hospitals that rely on Child Health Corporation include the well known Boston and Philadelphia

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Children's Hospitals.

As I talk to advocates, to administrators, to doctors, to nurses, to almost everyone in health care delivery, and listen to the incessant theme of how hospitals are squeezed by reimbursement rates and required to lay off staff and reduce non-profitable programming, I can't help but think about the millions of dollars that go into purchasing kickbacks, executive stock options, and overpriced supplies. A General Accounting Office study of these buying groups concluded that often hospitals got better prices negotiating with vendors on their own. This GAO study was a very limited preliminary study. Nevertheless, the day before the study was released, Premier Inc. took out a full-page ad in *Roll Call* (http://www.rollcall.com), an influential newspaper covering Capitol Hill, stating that it was holding down the cost of health care for business, taxpayers and health consumers. A more comprehensive GAO study is promised to determine whether millions of health care dollars may be wasted due to the practices of large and market-controlling buying groups.

There is no public accountability for the actions of these purchasing companies. A 1986 law passed by Congress allows suppliers to pay fees to purchasing groups without being subject to federal antikickback laws (wonder how that passed through our legislators!).

The antitrust subcommittee of the Senate, chaired by Democrat Herb Kohl of Wisconsin, is now investigating financial links between hospital buying groups and suppliers, but even Kohl claims to have first learned about these conflicts through the *Times'* reporting.

For more information about "Medicine's Middlemen," see articles in the *New York Times* by Walt Bogdanich, Berry Meier or Mary Williams Walsh on March 4, March 26, April 23, April 27 and April 30, 2002. Watch for additional *New York Times* reports in the future, for the promised GAO investigation and for reports of or transcripts from the Senate hearing. And, in the meantime, do you know who does your hospital's purchasing and how that buying is structured? Find out!

Compiled by HAP Bulletin staff. Please submit your own news items of interest. ■