

Chapter 34

Health Shared Services Saskatchewan – Shared Procurement

1.0 MAIN POINTS

Health Shared Services Saskatchewan (3sHealth)¹ is responsible for facilitating the purchase of goods and services on behalf of its member agencies² (shared procurement). In 2014-15, member agencies purchased goods and services totalling \$221 million through 3sHealth.

Procuring goods and services for others at best value can present significant risks if not done in a fair and transparent manner. Additionally, poor quality of procured goods and services could result in harm to users of healthcare services.

3sHealth procures goods and services for its member agencies to obtain volume-based price discounts and standardized products and services. 3sHealth negotiates about half of the dollar value of goods and services contracts itself, and a national group purchasing organization (GPO) negotiates the other half on 3sHealth's behalf.

This chapter reports the result of our audit of 3sHealth processes to procure goods and services for its member agencies. We concluded that 3sHealth had effective processes except for the following areas:

- › Receipt of approval for procurement policies from the Board
- › Documentation of the basis for its choice of procurement methods
- › Validation of the reasonableness of a key assumption (i.e., inflationary price growth rates) used to estimate cost savings
- › Regular reporting on significant incidents of non-compliance with procurement policies and plans to address them
- › Confirmation that individuals involved in procurement activities have assessed and declared they have no conflict of interest when negotiating with potential suppliers
- › Monitoring the performance of its suppliers

We make 13 recommendations to help 3sHealth improve its shared procurement processes.

¹ Health Shared Services Saskatchewan was created through an amendment of the Saskatchewan Association of Health Organizations (SAHO) bylaws effective April 12, 2012, as a result of recommendations made in the 2009 Saskatchewan Patient First Review.

² Member agencies include Saskatchewan's 12 regional health authorities, their affiliates, and the Saskatchewan Cancer Agency.



2.0 INTRODUCTION

3sHealth procures and facilitates the procurement of goods and services for member agencies such as:

- › Nutrition and food services
- › Dietary and linen supplies
- › Medical, surgical, and laboratory supplies
- › Pharmaceuticals and hearing aids
- › Biomedical waste disposal services
- › Administrative services and supplies

For the 12-month period ended August 2015, 3sHealth facilitated purchases on behalf of member agencies totalling approximately \$221 million.³

One of 3sHealth's goals is to reduce the cost of goods and services to Saskatchewan's health system. Purchasing through 3sHealth aims to provide member agencies with the benefits of shared purchasing together with standardized products and services. 3sHealth works on behalf of member agencies to obtain the best rates, terms, and conditions when buying goods and services in two main ways:

- › Its materials management staff facilitate procurement processes. In this chapter, we refer to this as "internally-led procurement". 3sHealth can be involved in assisting in the various phases of buying goods or services. This includes negotiating provincial and multi-provincial group purchasing contracts.
- › Member agencies can also make purchases through the national group purchasing organization (GPO) that is under contract with 3sHealth. In this chapter, we refer to this as "GPO-led procurement". In 2010, after using a competitive selection process, 3sHealth entered into an agreement with the GPO. 3sHealth uses its contract with the GPO to increase purchasing power through shared national procurements with other provincial authorities, hospitals, and shared service organizations.⁴ Through the GPO, 3sHealth and member agencies can access volume discounts gained through partnering with other jurisdictions seeking similar products.

About one-half of the \$221 million in purchases 3sHealth facilitated for the 12-month period ended August 2015 were internally-led procurements, and the other half were GPO-led procurements. 3sHealth has reported saving the health system more than \$110 million⁵ from 2010 to 2015 through group purchasing.

³ Based on data provided by 3sHealth management.

⁴ <http://portal.healthprocanada.com/web/healthpro-public/about> (28 September 2015).

⁵ www.saskatchewan.ca/~media/news%20release%20backgrounders/2015/june/highlights%20patients%20first%20review%20update.pdf (15 June 2015).

3.0 AUDIT CONCLUSIONS AND SCOPE

The objective of this audit was to assess the effectiveness of 3sHealth's processes to procure goods and services for its member agencies for the 12-month period ending July 31, 2015.

The audit focused on those goods and services where 3sHealth facilitated purchases on behalf of its member agencies (shared procurement). The audit did not include goods and services 3sHealth bought for its own use, or those that member agencies purchased directly without the involvement of 3sHealth.

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate 3sHealth's processes, we used criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. 3sHealth's management agreed with the criteria (see **Figure 1**).

We examined 3sHealth's procurement policies and procedures. This included the procurement and competitive bidding policy, provincial contract decision-making and voting policy, contract administration and management policy, its arrangement with the GPO, and other relevant documents. We interviewed staff responsible for the procurement of goods and services, including senior management. To test the operation of key aspects of the procurement process, we examined procurement files and contracts.

Figure 1 – Audit Criteria

- 1. Set policies for procurement of goods and services**
 - 1.1 Determine which goods and services will be subject to shared procurement
 - 1.2 Develop and approve policies for procurement of goods and services
 - 1.3 Align policies with externally-imposed requirements (e.g., New West Partnership Trade Agreement;⁶ Agreement on Internal Trade)⁷
 - 1.4 Update policies periodically
 - 1.5 Communicate policies for procurement (i.e., internally and externally to member agencies)
 - 1.6 Monitor and report on compliance with policies
- 2. Define the needs and specifications for required goods and services**
 - 2.1 Define the need in sufficient detail for suppliers' and member agencies' understanding
 - 2.2 Define specifications to encourage open and effective competition
 - 2.3 Specify other requirements (e.g., warranty, delivery, packaging, performance guarantees)
- 3. Obtain quotations fairly**
 - 3.1 Determine most appropriate procurement method
 - 3.2 Identify feasible sources of supply
 - 3.3 Obtain appropriate authorization to initiate purchase agreement (e.g., tenders)
 - 3.4 Give equal and fair treatment to potential suppliers
- 4. Select suppliers for required goods and services**
 - 4.1 Evaluate potential suppliers for best value
 - 4.2 Document decision for supplier selection
 - 4.3 Obtain appropriate approval to enter into agreement for member agencies to buy goods and services
 - 4.4 Inform bidders of tender decision
 - 4.5 Obtain written contractual agreements

⁶ The New West Partnership Trade Agreement (NWPTA) is an accord between the governments of British Columbia, Alberta, and Saskatchewan that creates a large, barrier-free, interprovincial market. www.newwestpartnershiptrade.ca/the_agreement.asp (21 September 2015).

⁷ The Agreement on Internal Trade (AIT) is an intergovernmental trade agreement signed by Canadian First Ministers that came into force in 1995. Its purpose is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services, and investment within Canada to establish an open, efficient, and stable domestic market. www.ait-aci.ca/index_en.htm (21 September 2015).

**5. Monitor performance related to procurement**

- 5.1 Assess performance of selected national group purchasing organization (GPO)
- 5.2 Assess performance of suppliers periodically
- 5.3 Use performance information for future decision making
- 5.4 Assess if expected savings are realized

We concluded that for the 12-month period ended July 31, 2015, Health Shared Services Saskatchewan (3sHealth) had, other than for the following areas, effective processes to procure goods and services for its member agencies.

3sHealth needs to obtain its Board's approval for procurement policies, document its procurement method selection decisions, and validate the reasonableness of inflationary price growth rates used to estimate cost savings.

For internally-led shared procurements, 3sHealth needs to obtain conflict-of-interest declarations for member agency staff involved in evaluating shared procurements, and actively monitor the performance of its shared procurement suppliers.

For shared procurements made through the national group purchasing organization, 3sHealth needs to periodically report whether the national group purchasing organization's controls align with 3sHealth's procurement policies.

4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, "shared procurement" means procurement activities either led directly by 3sHealth materials management staff or the GPO.

4.1 Policies for Procurement of Goods and Services Established but Need Approval and Monitoring for Compliance

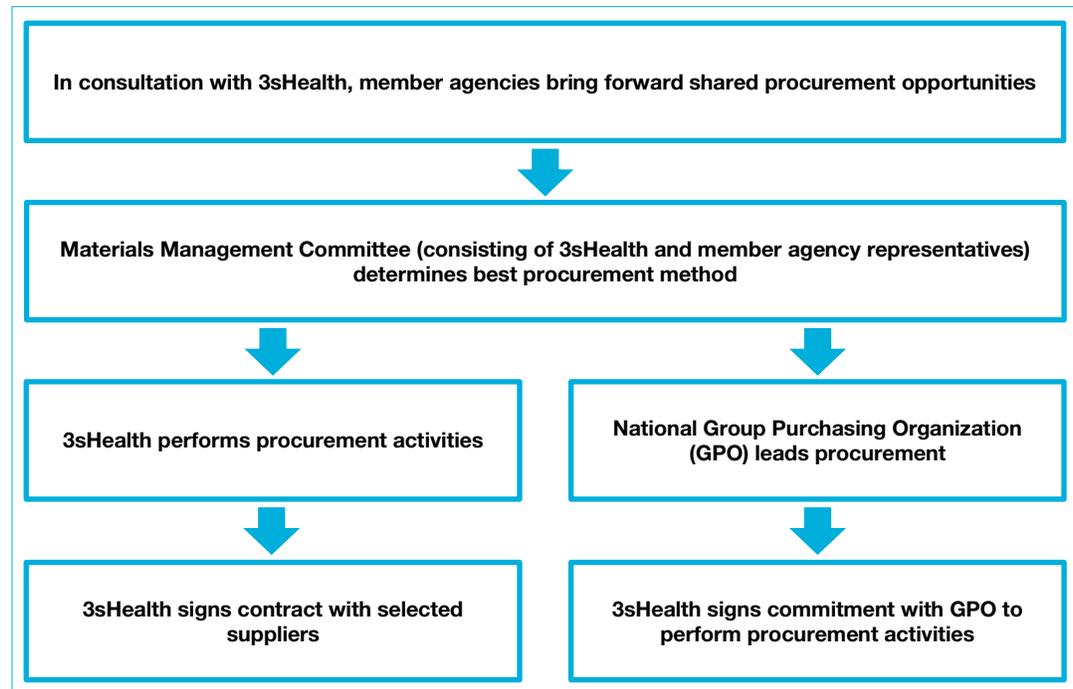
4.1.1 Process in Place to Determine Goods and Services Subject to Shared Procurement

We expected 3sHealth to establish a process to determine which goods and services are subject to shared procurement (i.e., procured through use of 3sHealth services rather than individual member agencies).

3sHealth and its member agencies have established a Materials Management Committee (Committee). The Committee consists of 14 representatives appointed from 3sHealth and member agencies (one representative from each). The Committee is responsible for, among other things, determining which goods and services needed by member agencies are best suited to a shared procurement approach. Based on our review of Committee meeting minutes, we found the Committee actively worked with member agencies to determine goods and services best suited to shared procurement.

As shown in **Figure 2**, the Committee decides which procurement to make using 3sHealth staff (i.e., internally-led procurement) and which to make through the GPO (i.e., GPO-led procurement).

Figure 2—Shared Procurement Decision Tree



Source: Developed by Provincial Auditor's Office.

4.1.2 Procurement Policies Require Board Approval

Effective procurement policies are designed to ensure open competition takes place, suppliers are treated in a fair and equal manner, and best value is achieved for member agencies. We expected 3sHealth to:

- › *Develop effective procurement policies for staff*
- › *Review and update procurement policies on a regular basis*
- › *Align policies with externally-imposed requirements (i.e., New West Trade Partnership Agreement [NWPTA], Agreement on Internal Trade [AIT])⁸*
- › *Obtain the approval of its Board of key procurement policies*

3sHealth established procurement policies specific to its procurement services that it provides to member agencies, (e.g., internally-led procurement). Its Procurement and Competitive Bidding Policy included clear guidance to materials management staff on its process. The policy included expectations for identifying and responding to conflicts of interest, outlined key roles and responsibilities, and set out acceptable criteria to use

⁸ The requirements of the NWPTA differ slightly from those with the AIT. For example, NWPTA requires purchases exceeding \$75,000 to be publicly tendered through an electronic tendering system (e.g., the government's tendering system – SaskTenders), and the AIT has a similar requirement for purchases exceeding \$100,000.



when evaluating tender proposals. The key components of the policy aligned with the requirements of the NWTPA and AIT.

3sHealth requires regular review of this policy on an annual or other pre-determined basis. The policy was most recently updated in January 2013 and management indicated it was under review at August 2015.

We found senior management had approved 3sHealth's procurement policies instead of its Board of Directors. In addition, we found the Board has not given senior management authority to approve the procurement policies. As procurement policies are crucial to 3sHealth achieving its mandate, the Board should approve these policies.

Board approval of those policies is essential for the organization to achieve its mandate, and helps ensure the Board agrees that the policies align with the mandate and appropriately mitigate related risks. 3sHealth's procurement activities on behalf of member agencies are a key part of its mandate. Lack of Board approval of key procurement policies increases the risk that inappropriate financial decisions may be made. It also increases the risk that 3sHealth's Board may not be able to hold management accountable for decisions made.

- 1. We recommend the Board of Health Shared Services Saskatchewan approve procurement-related policies.**

4.1.3 Policies for Procurement not Effectively Communicated to GPO

Communicating procurement policies to member agencies and 3sHealth staff ensures established processes are followed. Failure to communicate policies may result in inappropriate procurement practices or non-compliance with trade agreements, which can give rise to litigation in some cases. We expected management to communicate procurement policies externally to member agencies, and internally to 3sHealth staff. We also expected management to notify member agencies and 3sHealth staff of any updates to policy.

3sHealth maintains a procurement policy and procedures manual that supports its process. It gives member agencies and 3sHealth materials management staff a copy of this manual, and access to a non-public website (SharePoint).⁹ This website contains its up-to-date procurement policies, procedures, and standardized documents for use in procurement activities. The website automatically notifies its users via email of information posted to, or changes to information posted on the website (such as updates or changes to 3sHealth procurement policies). The email advises the nature of the change, and provides information about the location of updated policy on the website.

3sHealth's agreement with the GPO requires the GPO to comply with 3sHealth's procurement policies and procedures. However, 3sHealth has not provided its relevant

⁹ Organizations use SharePoint to create websites. It can provide a secure place to store, organize, share, and access information from almost any device. <https://support.office.com/en-us/article/What-is-SharePoint-97b915e6-651b-43b2-827d-fb2577f446f> (25 September 2015).

procurement policies and procedures to the GPO. Without 3sHealth providing this information, the GPO would not know 3sHealth's expectations for procurement practices. This impacts 3sHealth's ability to hold the GPO accountable for its performance.

- 2. We recommend Health Shared Services Saskatchewan provide its relevant procurement policies and procedures to the selected national group purchasing organization.**

4.1.4 Identifying, Tracking, and Reporting on Non-Compliance with Procurement Policy Needed

We expected 3sHealth to document its processes for detecting, addressing, and reporting significant non-compliance with its procurement policy. These processes would keep senior management and the Board informed of significant non-compliance.

While 3sHealth has processes to identify and address non-compliance with procurement policies for internally-led procurements, it does not track or summarize instances of identified non-compliance or their resolution.

For each internally-led procurement, 3sHealth materials management staff prepares a procurement file containing documentation that its policies require. 3sHealth's management reviews these files in detail to determine whether the team followed established policies and procedures. Management completes these reviews prior to entering into an agreement with a supplier. While management determines compliance with policies and resolves issues, if any, it does not formally track nor give senior management or the Board information about the nature or extent of non-compliance with purchasing policies.

3sHealth has mechanisms to identify and address non-compliance with its procurement policies for GPO-led procurements such as:

- › Representation on the GPO's Board
- › Participation on various GPO committees
- › Involvement in GPO-led procurements such as participating in the development of evaluation criteria, specifications, scoring of proposals, and awarding contract decisions
- › Regular contact with the GPO's member support teams

However, we found that policy compliance information captured through these mechanisms was not regularly reported to 3sHealth senior management or the Board. Management indicated reports were not provided as no significant issues were identified.

Non-compliance with procurement policies may expose 3sHealth to significant financial, legal, and reputational risks. Identifying and tracking non-compliance would enable



management to determine common or recurring issues, and identify training requirements and revisions needed to policies and processes. Also, periodic reporting of significant non-compliance to senior management and the Board would inform them as to the effectiveness of its procurement policies.

3. We recommend Health Shared Services Saskatchewan implement procedures to identify, track, and monitor instances of non-compliance with procurement policies.

4. We recommend Health Shared Services Saskatchewan give its Board periodic reports on significant incidents of non-compliance with procurement policies and steps taken to address them.

4.2 Needs and Specifications Defined for Required Goods and Services

Clearly outlining the need, specifications, and other relevant requirements for goods and services ensures that all interested suppliers have the necessary information to complete bids. In addition, including other relevant requirements such as warranty, delivery, packaging, and performance requirements minimizes the risk of disputes in the event a supplier does not meet requirements in such areas. We expected 3sHealth to define, in writing, the need, specifications, and other relevant requirements (e.g., warranty, delivery, packaging, performance guarantees) for goods and services.

As previously noted, the Materials Management Committee identifies shared procurement opportunities. Member agency representatives bring forward their agencies' goods and service needs for the Committee's consideration. The Committee determines whether the identified need is suitable for shared procurement. Using information from and decisions of the Committee, 3sHealth maintains a work-in-progress and potential contracts listing. The listing sets out potential goods and services that member agencies typically require that may be appropriate for shared procurement.

For purchases the Committee decides as suitable for shared procurement, the Committee then decides whether to ask 3sHealth to lead the procurement (internally-led procurement) or make the purchase through the GPO (GPO-led procurement).

For both types of procurements, 3sHealth collaborates with its member agencies to determine product/service specifications. In determining specifications, 3sHealth uses sub-committees. These sub-committees consist of members from member agencies and its materials management staff as well as, in some situations, subject matter experts who specialize in the area of the item being procured. We found that 3sHealth provided the information suppliers needed to prepare competitive bids.

4.3 Improvement Needed to Ensure Quotations are Obtained Fairly

4.3.1 Documentation to Support Selection of Procurement Method not Maintained

We expected procurement methods to be chosen in accordance with established policy and justification for selection of the procurement method documented. We expected 3sHealth to identify feasible sources of supply to meet the needs of member agencies in a way that is fair and transparent.

We found the Committee was not expected to nor did it document its rationale for deciding to use a GPO-led procurement. 3sHealth advised us that the Committee views GPO-led procurements as providing goods or services at lower costs than available through internally-led procurements. Therefore, it uses GPO-led procurement as the default procurement method.

Because it did not document the rationale for its decisions, we were unable to determine if the Committee had considered risks of the GPO-led procurements. In addition, we found that 3sHealth had not developed guidance to help the Committee evaluate and decide when best to use a GPO for procurement.

When a good or service need is identified as appropriate to assign to the GPO, 3sHealth works with the GPO to determine whether it is available in its supply chain and if so, signs a commitment to purchase. The GPO then shortlists potential suppliers for selected goods and services. This listing of potential suppliers is often based on the purchasing needs of multiple jurisdictions or agencies. While GPO-led procurements can offer lower pricing for many goods and services, it can present certain drawbacks. For example, when many jurisdictions are involved in national procurements, the optional suppliers that GPO provides may only meet the needs of some, but not all, jurisdictions. The Committee must be alert to this risk in deciding whether to use a GPO-led procurement or to retain the procurement process.

For internally-led procurements, 3sHealth identifies feasible procurement methods (such as call for tenders, request for proposals, request for qualifications, request for strategic partners, and pre-approved vendor lists) as part of its Procurement and Competitive Bidding Policy (Policy). The Policy gives staff guidance regarding the most appropriate method to use. For example, 3sHealth expects staff to use request for proposals or requests for strategic partnerships when the dollar value for products, materials, or services is greater than \$75,000. The Policy includes a template for staff to document the rationale for selecting a sole-source¹⁰ procurement method over a competitive tender procurement method and have it approved.

For internally-led procurements, 3sHealth selects the procurement method (e.g., public tender, quotes) based on its policies, and communicates product/service specifications to potential suppliers (e.g., obtaining quotes, public tender).

¹⁰ Sole-source – designating a company contracted, without competition, to be the sole supplier of a product or service <http://dictionary.reference.com/browse/sole-source> - retrieved (25 September 2015).



The internally-led procurement files we tested included sufficient purchase specifications and other requirements, such as warranties, delivery, packaging, and performance requirements. In addition, files showed specifications and other expectations were provided to potential suppliers. Where it used a competitive procurement method, we found 3sHealth advertised to the public through an electronic tendering system equally accessible to all Canadian suppliers.

3sHealth entered into one internally-led sole-source procurement during the audit period. For sole-source procurements, Policy requires staff to complete an exceptions justification document (exceptions document) prior to entering into a sole source procurement. We found that staff did not complete the exceptions document required by the Policy.

Management indicated that while the exception document was not completed, the rationale for choosing to sole-source was recorded in other steps of the procurement process such as internal sub-committee meetings and through an advance contract award notice. These other steps provided some justification for the sole-source decision; however, Policy requires the exception document to be completed and approved prior to these additional steps. As such, 3sHealth did not follow Policy for documenting rationale for sole-source procurements. Documenting rationale that provides the basis of procurement method decisions helps ensure the best procurement method is chosen, and the decision can withstand the scrutiny of all member agencies. This can also help ensure externally-imposed procurement requirements (i.e. NWPTA, AIT) are met, best value is received, and potential suppliers are given equal and fair treatment.

5. We recommend Health Shared Services Saskatchewan document rationale for the shared procurement method selected (i.e., internally-led, sole-sourced, or national group purchasing organization-led procurement).

4.3.2 Stronger Conflict of Interest Requirements from Member Agencies Needed to Protect Fair and Equal Treatment of Suppliers

For internally-led procurement, we expected 3sHealth to develop policies to address fair and equal treatment of suppliers. In addition, we expected 3sHealth to communicate the procurement process to potential suppliers, and allow adequate time for all potential vendors to submit bids (e.g., minimum guidelines exist). We also expected 3sHealth to gather information to gain assurance GPO tenders were appropriately carried out.

We expected conflict-of-interest declarations to be signed by 3sHealth staff, committee members involved in evaluations, and member agency staff involved in procurement. We also expected 3sHealth to monitor conflict of interest provisions of the GPO.

3sHealth developed a Procurement and Competitive Bidding Policy for staff providing guidance on maintaining fair and equal treatment of suppliers. For example, the policy outlines non-discrimination rules applicable under NWPTA and AIT.

For internally-led procurements we tested, 3sHealth provided, in the tender notices, all relevant information including a description of the procurement process. Potential suppliers also had enough time to respond to tender notices (e.g., greater than 15 days). Allowing adequate time to submit bids provides suppliers with an opportunity to develop comprehensive proposals that 3sHealth needs to perform meaningful evaluation and to determine the best supplier.

As described in **Section 4.1.4**, we found 3sHealth has mechanisms to monitor fair and equal treatment of suppliers. However, we found that limited information was regularly reported through these mechanisms. This impacts 3sHealth management's ability to monitor if GPO tenders were appropriately carried out.

3sHealth's Policy requires all employees of regional health authorities, Saskatchewan Cancer Agency, 3sHealth, and physicians involved in an internally-led procurement evaluation process to sign a conflict-of-interest and non-disclosure declaration. 3sHealth staff are required to complete annual declarations.

However, we found member agency staff who had procurement responsibilities within their respective organization were exempted by 3sHealth management from having to sign a declaration with 3sHealth. Management indicated that staff of respective member agencies may sign conflict-of-interest declarations as part of their own policies. As a result, 3sHealth does not know whether member agency staff with procurement responsibilities may have a conflict of interest.

For GPO-led procurements, 3sHealth only relies upon the GPO meeting conflict-of-interest provisions outlined in the GPO's business conduct manual.

Failure to identify and resolve conflicts of interest may result in unfair treatment of suppliers and inappropriate supplier selection decisions. This increases the risk of loss of public's confidence in 3sHealth's procurement process.

6. We recommend Health Shared Services Saskatchewan develop a process to confirm that member agencies' and the national group purchasing agency's staff involved in shared procurement activities regularly sign conflict-of-interest declarations.

4.3.3 Appropriate Authorization Obtained to Initiate Purchase Agreements

We expected 3sHealth to communicate with member agencies prior to initiating the procurement process to ensure that any issues that may arise are identified and resolved prior to initiating a purchase agreement. We expected 3sHealth to document approvals in accordance with its delegated authorities.

We found 3sHealth maintains a delegated authority list. This list sets out authorization for procurement-related activities such as approving contracts for internally-led procurements or commitments for GPO-led procurements based on position (e.g., Director of Purchasing). This list establishes who can approve various types of transactions including procurement-related activities.



For procurement files we tested, purchase agreements and commitments had proper authorization in accordance with 3sHealth's delegated authority list, and communication with member agencies took place before initiating the procurement process.

4.4 Processes to Document Supplier Decisions Need Improvement

4.4.1 Potential Suppliers Evaluated for Best Value but Decisions Not Documented

Applying evaluation criteria communicated in tender documents makes all suppliers aware of how their proposal will be evaluated. It also promotes best value to member agencies through choosing suppliers based on merit. Documenting such decisions strengthens transparency and allows decisions to be justified in the event they are questioned.

We expected 3sHealth to evaluate all proposals for goods and services in accordance with its policy and established criteria. 3sHealth would document supplier selection decisions. 3sHealth would periodically receive information on the effectiveness of controls used by its selected GPO to ensure the GPO's procurement processes were fair and transparent and consistent with 3sHealth's objectives.

For internally-led procurements, we found 3sHealth's Policy included standard evaluation criteria such as price, quality, services, and capacity of suppliers to meet requirements. It allows 3sHealth to evaluate tenders based on any or all of the established criteria specified in the Policy for such factors specified in the tender notice or tender documentation.

For the internally-led procurement files we tested, 3sHealth included evaluation criteria in tender information provided to potential suppliers; 3sHealth staff, representatives of member agencies, and subject matter experts where necessary, used the criteria to evaluate proposals received. However, one of nine internally-led procurement files that we tested did not include a documented evaluation of the criteria outlined in the tender information provided to potential suppliers.

Documenting evaluations of bids increases the transparency of the process and allows for ready review of the supplier selection decision in case of complaints.

7. We recommend Health Shared Services Saskatchewan document evaluations of all proposals received in response to shared procurement tenders.

For GPO-led procurements, 3sHealth has representation on various committees. These committees develop contracting strategy, participate in product pre-qualification, and contract award processes. While the GPO may document its evaluation of suppliers, 3sHealth does not regularly receive information from its committees on whether individual procurements were done in a fair and transparent manner (see **Section 4.5.1**).

4.4.2 Approval Needed from Member Agencies Prior to Extending Commitments with GPO

Obtaining approval from member agencies prior to signing agreements for purchasing goods and services helps ensure issues brought forward by member agencies are addressed before agreements are finalized.

For internally-led procurements, we expected 3sHealth to have processes for obtaining appropriate approval from member agencies prior to communicating with suppliers. For GPO-led procurements, we expected 3sHealth to obtain appropriate approval from member agencies prior to entering into a commitment to purchase specified goods or services from GPO-selected suppliers.

For internally-led procurements, 3sHealth uses subcommittees to recommend the final supplier selection decisions. Sub-committee members usually make unanimous decisions but, where consensus cannot be reached, the sub-committee's final decision is by a majority vote. 3sHealth's Provincial Contract Decision Making and Voting Policy includes details of process for such voting. The sub-committee's recommendation is provided to 3sHealth management for review and approval.

For internally-led procurements we tested, 3sHealth received appropriate approval from member agencies for supplier selections prior to communicating with the suppliers. 3sHealth received such approval through collaboration with sub-committees performing the evaluation via email, conference calls, and meetings.

For GPO-led procurements we tested, 3sHealth received appropriate approval from member agencies prior to entering into new commitments to purchase goods and services from the GPO-selected suppliers. It obtained approval from member agencies through representatives sitting on the Materials Management Committee.

From time to time, 3sHealth extends commitments with the GPO to continue purchasing certain types of goods and/or services from GPO-selected suppliers. However, we found that 3sHealth did not seek or receive approval from the Committee or member agencies prior to it extending these commitments with the GPO. Also, we did not find evidence that 3sHealth sought information from member agencies on GPO-facilitated suppliers' performance prior to making this decision.

Extending existing purchase commitments with the GPO without further analysis increases the risk that 3sHealth may renew agreements with suppliers who do not meet the needs of member agencies. In addition, extending existing commitments with limited analysis and member agency input increases the risk that only GPO-led selected suppliers are used thus potentially impacting the fair and equitable treatment of suppliers.

8. We recommend Health Shared Services Saskatchewan obtain approval from member agencies prior to extending existing purchase commitments with the national group purchasing organization.



4.4.3 Communication of Appeal Mechanism Needed to Address Supplier Disputes and Concerns

Providing debriefing and complaint instructions is an important mechanism for gathering feedback from unsuccessful bidders that can be used to continuously improve procurement processes. We expected 3sHealth, for internally-led procurements, to:

- › *Establish a process to communicate tender decisions to successful and unsuccessful bidders in a reasonable period*
- › *Solicit feedback from unsuccessful bidders*
- › *Have an appeal process to address supplier disputes/concerns*

We recognize 3sHealth is not directly involved with selecting suppliers for GPO-led procurements.

For internally-led procurements we tested, 3sHealth communicated tender decisions to successful and unsuccessful bidders via award and rejection letters. 3sHealth provided award and rejection letters to bidders within a reasonable period. This allowed suppliers to bring forward any issues or complaints requiring 3sHealth's attention in a timely manner.

3sHealth policy requires staff to provide debriefing instructions to bidders as part of tendering documentation. For internally-led procurements we tested, staff provided these instructions to bidders as part of the tendering documentation, consistent with policy.

While 3sHealth had an established process to receive complaints from bidders, it did not have a bidder appeal process. Management indicated that it was aware of changes to the NWPTA made in July 2015 to establish a bid protest mechanism. By July 31 2015, 3sHealth had not yet communicated the availability of the bid protest mechanism to its bidders.

Communicating such a process ensures bidders are aware of how to request an appeal. This provides an opportunity for bidders to seek remedies in the event a bidder feels unfair treatment. An ineffective appeal process increases the risk of unequal treatment of bidders.

9. We recommend Health Shared Services Saskatchewan communicate to bidders the bid protest mechanism available under the New West Trade Partnership Agreement.

4.4.4 Written Contractual Agreements in Place

We expected 3sHealth to minimize risk by using written contractual agreements including a minimum set of provisions set out in a contract template or through legal review.

For internally-led procurement files we tested, 3sHealth used a standard contract template containing a minimum set of provisions. For complex procurements, 3sHealth management indicated it obtains external legal advice to ensure contracts include all necessary provisions.

For GPO-led procurements, 3sHealth uses a standard commitment form obligating them to purchase through suppliers negotiated by its GPO.

4.5 Better Monitoring of Performance Related to Procurement Needed

4.5.1 Reporting of Assessment of Controls in Operation within National Group Purchasing Organization (GPO) Needed

We expected 3sHealth to establish reporting requirements to assess its selected national Group Purchasing Organization's (GPO) performance. We also expected 3sHealth to receive information on controls used by its selected GPO to ensure the GPO's procurement processes are fair and transparent and achieved 3sHealth's objectives.

3sHealth has set reporting requirements as part of its agreement with the selected GPO consistent with its goal of reducing costs of goods and services to Saskatchewan's health system. For example, 3sHealth receives, from the GPO, quarterly information on savings achieved through rebates¹¹ provided to member agencies for certain purchases made through the GPO. We found that 3sHealth received cost savings-related reports consistent with the agreement.

As 3sHealth relies on the GPO to provide value to its member agencies in a fair and transparent way, it is important 3sHealth understands the control environment of its GPO and whether key aspects of the GPO's procurement processes align with 3sHealth's expectations as set out in its procurement policies.

As described in **Section 4.1.4**, we found that 3sHealth has mechanisms to capture information on the effectiveness of GPO procurement controls such as:

- › Representation on the GPO's Board
- › Participation on various GPO committees
- › Involvement in GPO-led procurements such as participating in the development of evaluation criteria, specifications, scoring of proposals, and awarding contract decisions.
- › Regular contact with the GPO's member support teams

However, we found that control information captured through these mechanisms was not periodically or formally reported back to 3sHealth senior management or the Board.

¹¹ As per the Procurement Management Services Agreement between 3sHealth and the GPO, rebates (e.g., volume discounts) are received by member agencies in the form of patronage dividends to member agencies and 3sHealth proportionately to the revenues derived from participation in GPO purchasing programs.



Management indicated reporting was not provided as no significant issues were identified.

Not receiving periodic, formal reporting whether the GPO's procurement controls align with 3sHealth's policies increases the risk of not having fair and transparent procurement processes. See **Recommendations 3** and **4**.

4.5.2 Performance of Suppliers not Periodically Assessed

We expected 3sHealth to:

- › *Provide member agencies with adequate information on supplier contracts*
- › *Define supplier performance reporting requirements and obtain related information*
- › *Report performance problems to suppliers*
- › *Regularly share performance of suppliers with relevant decision-making bodies (e.g., Materials Management Committee, senior management, Board for significant items) to inform future supplier selection decisions*

For internally-led procurement, 3sHealth provides member agencies with copies of contracts on its electronic supply system. The system is accessible to employees of member agencies with procurement responsibilities. For GPO-led procurements, member agencies were provided with a contract information sheet for each contract. The contract information sheet provides key contract terms, ordering/service information, and a pricing for all products available under the contract. As such, member agencies are provided with adequate information on supplier contracts.

For internally-led procurements, 3sHealth's Contract Administration and Management Policy requires 3sHealth staff to measure and report supplier performance. For example, it requires regular reporting related to service levels and customer satisfaction. The Policy also states that, at a minimum, staff must provide weekly internal status reports and monthly management reports.

We found that 3sHealth did not actively monitor supplier performance. Other than receiving product issue reports¹² from member agencies, 3sHealth collected limited information on supplier performance. Lack of supplier performance information limits 3sHealth's ability to use this information to make future supplier selection decisions. Limited supplier performance information also increases the risk that issues with suppliers may not be identified and addressed in a timely manner.

In addition, it did not formally share collected information with the Board, Material Management Committee, other member agencies, or others with responsibilities for procurement. This can result in member agencies continuing to purchase goods and services from suppliers with known problems, resulting in increased costs. In addition, as 3sHealth procures healthcare-related goods and services that are often provided directly to the public, an unresolved issue with a supplier could also present a health risk.

¹² When issues arise with supplier products, member agencies can fill out a product issue form. The form is submitted to 3sHealth for investigation and issue resolution. 3sHealth reviews outstanding product issues on a monthly basis.

10. We recommend Health Shared Services Saskatchewan track and periodically assess the performance of its suppliers of goods and services for shared procurements.

11. We recommend Health Shared Services Saskatchewan regularly provide information on supplier performance to member agencies, senior management, and the Board.

4.5.3 Information Provided by Ministry of Health to Estimate Cost Savings Needs Validation

We expected 3sHealth to use an acceptable methodology to calculate publicly reported cost savings and that it would validate the accuracy of inputs into the cost savings calculations prior to reporting to the public.

3sHealth uses a methodology to estimate its savings to the healthcare system. The methodology includes various assumptions and data. In April 2013, 3sHealth had an accounting firm review its savings framework; the firm found that overall the method 3sHealth used to estimate savings was acceptable.

We found 3sHealth assembles an evidence binder to support annual reported savings calculations. Each year, 3sHealth's Internal Audit unit validates, in part, the publicly-reported cost savings included in the evidence binder. Its work focuses on verifying amounts included in cost-saving estimates as part of its annual work plan.

One key assumption the methodology uses is an estimated growth rate on goods and services' price indices. In fiscal 2014-15, the amount of savings attributed to the growth rate was \$1.58 million. This equates to about 10% of the total savings of \$15.39 million calculated by 3sHealth for the year.

We found 3sHealth obtained growth rates from the Ministry of Health to estimate inflationary cost savings for each fiscal year without assessing the basis or appropriateness of those rates. We noted that 3sHealth applies conservatism in calculating their growth rate related savings by only applying 50% of the growth rate. Management indicated the Ministry of Health's assumptions and calculation methodologies were validated by 3sHealth's Internal Audit in 2013; however, no work has been done since that time to assess whether fiscal 2014-15 growth rates provided by the Ministry of Health were reasonable.

The Ministry of Health advised us that the estimated growth rates are based on broad categories of expenses, and include both price and volume changes. The Ministry uses these growth rates to allocate funding to RHA's during the budget process and provides the same rates to 3sHealth to use in their cost savings calculations.

Not validating the reasonableness of the assumptions used in the methodology increases the risk that 3sHealth may report inaccurate cost savings.



12. We recommend Health Shared Services Saskatchewan validate annually the reasonableness of growth rates used to estimate cost savings related to inflationary price increases.

3sHealth generally provides information to the public on both annual and cumulative cost savings through its annual reports.¹³ However, we found that the 2014-15 annual report included only cumulative savings. Management indicated that only cumulative savings were provided in the report as the organization had reached the end of its 5-year target and was focusing on those results. However, focusing only on cumulative savings does not give the public sufficient information to enable them to assess the value 3sHealth has achieved in a given year.

Also, we note 3sHealth does not tell the public that the publicly-reported cumulative savings is an estimate and that this estimate may differ from actual savings.

13. We recommend Health Shared Services Saskatchewan make public its estimate of annual cost savings to the healthcare system along with information to help the public understand the basis for its estimate.

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¹³ 3sHealth's 2012-13 and 2013-14 annual reports provided cost saving information on both an annual and a cumulative basis.

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