

Chapter 36

Health Shared Services Saskatchewan – Procuring Goods and Services for Member Agencies

1.0 MAIN POINTS

Health Shared Services Saskatchewan¹ has made good progress in improving its processes to procure goods and services for member agencies. Health Shared Services Saskatchewan has implemented 8 of the 13 recommendations we made in our 2015 audit.

By July 2017, it shared its key Board-approved procurement policy with the national group purchasing organization used to buy some of its goods and services. In addition, it developed and began using a robust conflict of interest and non-disclosure policy. Also, it was using a reasonable process to identify, track, and report compliance with procurement policies for contracts that it negotiates.

Health Shared Services Saskatchewan needs to:

- Consistently document the basis for its choice of procurement methods
- Monitor supplier performance
- Obtain member agencies approval prior to extending existing purchase commitments
- Improve explanations on estimated cost savings to the public

2.0 INTRODUCTION

This chapter describes our follow up of management's actions on the recommendations we made in 2015 about Health Shared Services Saskatchewan's processes to procure goods and services for member agencies.² Our *2015 Report – Volume 2*, Chapter 34 concluded that Health Shared Services Saskatchewan had, other than for the areas identified in the 13 recommendations, effective processes to procure goods and services for its member agencies.

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (including CSAE 3001). To evaluate Health Shared Services Saskatchewan's progress towards meeting our recommendations, we used the relevant criteria from the original audit. Health Shared Services Saskatchewan agreed with the criteria in the original audit.

We reviewed Health Shared Services Saskatchewan's approved policies and procedures, and examined procurement documentation required to award contracts. We also interviewed Health Shared Services Saskatchewan's management as necessary.

¹ Health Shared Services Saskatchewan is also known as 3sHealth.

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



3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at July 14, 2017, and Health Shared Services Saskatchewan's actions up to that date. We found that Health Shared Services Saskatchewan implemented eight of the recommendations and made progress on implementing the other five recommendations.

3.1 Procurement Policy Approved

We recommended that the Board of Health Shared Services Saskatchewan approve procurement-related policies. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

In March 2016, Health Shared Services Saskatchewan's Board of Directors approved the Procurement and Competitive Bidding Policy. Health Shared Services Saskatchewan uses this policy to guide and exercise due diligence in its procurement practices.

3.2 Procurement Policy Communicated to the Group Purchasing Organization

We recommended that Health Shared Services Saskatchewan provide its relevant procurement policies and procedures to its selected national group purchasing organization. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

In November 2016, Health Shared Services Saskatchewan's management shared its Procurement and Competitive Bidding Policy with the national group purchasing organization. The group purchasing organization provides procurement services to agencies across Canada. Health Shared Services Saskatchewan uses the national group purchasing organization to negotiate a significant amount of contracts on Health Shared Services Saskatchewan's behalf.

3.3 Non-Compliance with Procurement Policy Identified, Tracked, and Reported

We recommended that Health Shared Services Saskatchewan implement procedures to identify, track, and monitor instances of non-compliance with procurement policies. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

We recommended that Health Shared Services Saskatchewan give the Board of Directors periodic reports on significant incidents of non-compliance with procurement policies and steps taken to address them.

(2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

In December 2016, Health Shared Services Saskatchewan's Board approved a reasonable process for identifying, tracking, and reporting compliance with procurement policies for contracts negotiated by Health Shared Services Saskatchewan.

Through policies, management must look for non-compliance with procurement policies during the contract review process.

We found that management of Health Shared Services Saskatchewan report about compliance with procurement policies to the Chief Executive Officer and the Board on a regular basis (i.e., monthly and quarterly, respectively). For the period January 2017 to July 2017, management did not report any items of non-compliance.

3.4 Documentation Needed to Support Selection of Procurement Method

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

(2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Partially Implemented

We found that Health Shared Services Saskatchewan did not always adequately document the rationale for the procurement method selected.

Health Shared Services Saskatchewan created a Procurement Method Rationale Checklist in January 2016 to help to adequately document the selection of procurement method (e.g., sole-or-single sourced³ or group purchasing organization-led procurement).

For all of the national group purchasing organization-led procurements we tested, the procurement method rationale was adequately documented. For one of two sole/single source procurements led by Health Shared Services Saskatchewan that we tested, the basis for using the sole/single source procurement method was not adequately documented.

Adequate documentation provides a record of decisions and facilitates the review of those decisions. Not having adequate documentation of reasons for selecting a procurement method increases the risk that management cannot or has not confirmed the method was the best possible choice, that is, results in buying suitable products/services at the best price.

³ Sole-source – contracting a company, without competition, to be the sole supplier of a product or service, www.dictionary.com/browse/sole-source (29 August 2017).



3.5 Conflict of Interest Requirements Followed

We recommended that 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. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

Health Shared Services Saskatchewan developed a robust Conflict of Interest and Non-Disclosure Policy. Member agencies involved in a specific contract are required to sign conflict of interest declarations prior to receiving contract information.

For all of the contracts negotiated by Health Shared Services Saskatchewan that we tested, Health Shared Services Saskatchewan obtained signed declarations as required.

In addition, the national group purchasing organization shared their policy with Health Shared Services Saskatchewan. The policy of the national group purchasing organization requires its staff to sign conflict of interest declarations on an annual basis.

3.6 Adequately Documented Evaluations of Potential Suppliers

We recommended that Health Shared Services Saskatchewan document evaluations of all proposals received in response to shared procurement tenders. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

For all of the proposals we tested, Health Shared Services Saskatchewan adequately documented the evaluations of each proposal received in response to shared procurement tenders.

3.7 Appeal Mechanism Communicated

We recommended that Health Shared Services Saskatchewan communicate to bidders the bid protest mechanism available under the New West Trade Partnership Agreement. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

We found that since February 2016 Health Shared Services Saskatchewan systematically informs bidders through information related to requests for proposals. It advises bidders where to access the New West Partnership Trade Agreement⁴ bid protest mechanism.

⁴ The New West Partnership Trade Agreement is an accord between the governments of British Columbia, Alberta, and Saskatchewan that creates Canada's largest, barrier-free, interprovincial market. www.newwestpartnershiptrade.ca/the_agreement.asp (23 August 2017).

3.8 Performance Assessments of Suppliers Progressing

We recommended that Health Shared Services Saskatchewan track and periodically assess the performance of its suppliers of goods and services for shared procurements. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Partially Implemented

We recommended that Health Shared Services Saskatchewan regularly provide information on supplier performance to member agencies, senior management and the Board. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Partially Implemented

We found that Health Shared Services Saskatchewan has not completed periodic assessments of the performance of its suppliers of goods and services and reported the results to member agencies, senior management, and the Board.

Since the 2015 audit, Health Shared Services Saskatchewan created an annual suppliers review process in which all member agencies are involved. It began using the review process in 2017 by first focusing on its five main suppliers. As of July 2017, the performance assessments of the five suppliers were in progress and, as such, results had not been reported to the Board or member agencies.

Periodically assessing performance of suppliers helps confirm the suppliers meet performance expectations, and provides useful information when deciding whether to use the suppliers in the future.

3.9 Approval from Member Agencies Needed Prior to Extending Commitments

We recommended that Health Shared Services Saskatchewan obtain approval from member agencies prior to extending existing purchase commitments with its national group purchasing organization. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Partially Implemented

We found that Health Shared Services Saskatchewan did not always obtain approval from member agencies prior to extending existing purchase commitments through the national group purchasing organization. Purchase commitments are agreements to buy certain goods or services from a single supplier at a set price for a set period of time.

Since the 2015 audit, Health Shared Services Saskatchewan created a process around contract extensions. This process requires member agencies to agree to the extension before Health Shared Services Saskatchewan extends the purchase commitment.



For one of three contract extensions we tested, Health Shared Services Saskatchewan did not obtain adequate approval from the member agencies before it extended the purchase commitment.

Not obtaining the agreement of member agencies before extending purchase commitments increases the risk of entering into arrangements to buy goods or services that do not meet the needs of member agencies (e.g., using suppliers with performance issues). As previously noted in **Section 3.8**, Health Shared Services Saskatchewan is in the process of implementing periodic supplier performance assessments.

3.10 Reasonableness of Estimated Growth Rate Validated Annually

We recommended that Health Shared Services Saskatchewan validate annually the reasonableness of growth rates used to estimate cost savings related to inflationary price increases. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Implemented

Health Shared Services Saskatchewan validated the growth rates used in its calculation of estimated cost savings in 2017. For example, it compared the growth rates it had determined to a four-year cost average by expense type (e.g. lab supplies) from Canadian healthcare cost data collected by the Canadian Institute for Health Information⁵ and adjusted the growth rates if they were not reasonable. Management told us it plans to do this on an annual basis.

3.11 Improvement Needed in Explaining Estimated Costs Savings to the Public

We recommended that Health Shared Services Saskatchewan make public its estimate of annual cost savings to the health-care system along with information to help the public understand the basis for its estimate. (2015 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation as of September 30, 2017)

Status – Partially Implemented

Since July 2015, Health Shared Services Saskatchewan published on its website information on the health system's estimated annual cost savings and how it calculated these cost savings but information is not yet complete or clear.

In July 2017, Health Shared Services Saskatchewan hired an accounting firm to audit its estimated cumulated cost savings from 2010 to 2017 based on its savings calculation framework. At the time of our follow-up, Health Shared Services Saskatchewan had not yet published the results of this audit.

⁵ The Canadian Institute for Health Information (CIHI) is an independent, not-for-profit organization that provides essential information on Canada's health systems and the health of Canadians.

Health Shared Services Saskatchewan does not clearly advise the public that the published cost savings are estimates and that they may differ from actual results. It does not publish its key assumptions to help readers understand the amount calculated such as the assumed growth rates, or estimated volumes of purchases, or conversely provide the related sensitivity of the estimate (e.g., if the actual growth rate is 1% more or less than estimated, cost savings will differ by \$x).

In addition, Health Shared Services Saskatchewan does not advise the public that it does not calculate the actual cost savings realized based on actual usage.

Providing the public with sufficient and understandable information about the estimated nature of the reported cost savings and its basis is key to them understanding the reported cumulated cost savings.

