

## Chapter 14

# 3sHealth—Procuring Goods and Services for Member Agencies

### 1.0 MAIN POINTS

By January 2020, Health Shared Services Saskatchewan (3sHealth) implemented the five remaining recommendations from our 2015 audit of its processes to procure goods and services for the Saskatchewan Health Authority, healthcare affiliates, and the Saskatchewan Cancer Agency (member agencies).

3sHealth:

- Used a checklist to support adequately documenting the rationale for the procurement method selected for group purchases of goods and services
- Periodically assessed and reported on the performance of suppliers of goods and services
- Provided feedback to the national group purchasing organization used to make certain group purchases before the organization extended its existing purchase commitments with suppliers
- Published its estimate of annual cost savings to the health-care system along with information to help the public understand the basis for its annual and cumulative estimate

Having effective processes to procure goods and services for its member agencies allows 3sHealth to manage risks and obtain the best value in a fair and transparent way.

### 2.0 INTRODUCTION

#### 2.1 Background

3sHealth is responsible for leading and taking a provincial approach to procuring goods and services for member agencies in an effort to obtain economies of scale. It uses this approach for procuring goods and services such as: nutrition and food services; dietary and linen supplies; medical, surgical, and laboratory supplies; pharmaceuticals and hearing aids; biomedical waste disposal services; and administrative services and supplies.

3sHealth leads the procurement of some purchases, and has hired a national group purchasing organization, which provides procurement services to agencies across Canada, to lead the procurement of others.



In 2018-19, member agencies purchased goods and services totalling \$213 million through 3sHealth. During this period, 3sHealth-led procurements totalled about \$99 million, and the national group purchasing organization-led procurements totalled about \$114 million.

## 2.2 Focus of Follow-Up Audit

This chapter describes our second follow-up of management's actions on the five outstanding recommendations we first made in 2015 about 3sHealth's processes to procure goods and services for member agencies.<sup>1</sup> At July 2017, the time of our last follow-up, 3sHealth had not fully implemented those five recommendations.<sup>2</sup>

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (CSAE 3001). To evaluate 3sHealth's progress towards meeting our recommendations, we used the relevant criteria from the original audit. 3sHealth's management agreed with the criteria in the original audit.

To complete the audit, we discussed with management the progress made in meeting our recommendations and examined key policies and procedures, reports, and supplier performance reviews. We also tested a sample of internally-led and sole/single sourced procurements to determine if 3sHealth documented the rationale for the procurement method selected.<sup>3</sup>

## 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 January 31, 2020, and actions of 3sHealth up to that date.

### 3.1 Rationale Documented for Procurement Method Selected

***We recommended Health Shared Services Saskatchewan document rationale for the shared procurement method selected (i.e., internally-led, single- or sole-sourced procurement).*** (2015 Report – Volume 2, p. 194, Recommendation 5; Public Accounts Committee agreement June 12, 2018)

**Status—Implemented**

3sHealth adequately documents the rationale for the procurement method selected.

In January 2016, 3sHealth created a Procurement Method Rationale Checklist to help staff adequately document the basis for the selected procurement method (e.g., internally-led or sole/single sourced procurement).

For all four of the internally-led and sole/single sourced procurements we tested, 3sHealth adequately documented the procurement method rationale.

<sup>1</sup> Our 2015 Report – Volume 2, Chapter 34, concluded that 3sHealth had, other than for the areas identified in the 13 recommendations, effective processes to procure goods and services for its member agencies. Find the original report regarding these recommendations at [auditor.sk.ca/publications/public-reports](http://auditor.sk.ca/publications/public-reports) (02 April 2020).

<sup>2</sup> 2017 Report – Volume 2, Chapter 36, pp. 253–259.

<sup>3</sup> Sole-source – contracting a company, without competition, to be the sole supplier of a product or service, [www.dictionary.com/browse/sole-source](http://www.dictionary.com/browse/sole-source) (26 February 2020).

Having adequate documentation of reasons for selecting a procurement method helps ensure the best procurement method is selected. It provides a record of decisions and facilitates the review of those decisions.

## 3.2 Periodic Performance Assessments of Suppliers Completed

***We recommended Health Shared Services Saskatchewan track and periodically assess the performance of its suppliers of goods and services for shared procurements.*** (2015 Report – Volume 2, p. 201, Recommendation 10; Public Accounts Committee agreement June 12, 2018)

**Status**—Implemented

***We recommended Health Shared Services Saskatchewan regularly provide information on supplier performance to member agencies, senior management and the Board.*** (2015 Report – Volume 2, p. 201, Recommendation 11; Public Accounts Committee agreement June 12, 2018)

**Status**—Implemented

3sHealth completes periodic assessments of the performance of its suppliers of goods and services, and reports the results to member agencies, senior management, and the Board.

Typically, each year, 3sHealth procures goods and services for its member agencies from about 120 suppliers. Approximately 27 suppliers provided greater than \$1 million in goods and services, with the remaining suppliers providing less than \$1 million.

Starting in 2017, 3sHealth reviews the performance of approximately five randomly selected suppliers for performance reviews on an annual basis. 3sHealth separates the suppliers into different categories (i.e., greater than \$1 million spent, between \$500,000 - \$1 million, and less than \$500,000) and reviews at least one from each category. For each supplier selected, it assesses:

- Customer service (e.g., easily accessible, vendor representative is knowledgeable of product, equipment or service)
- Delivery (e.g., delivers products/service according to schedule, does not have frequent backorders)
- Product quality (e.g., product/service meets quality expectations, products are reliable and durable)
- Billing/financial (e.g., consistent accuracy of billing, rebate information provided is clear)

3sHealth reports the results of these reviews to each of its member agencies, its senior management, and the Board. For example, for the reviews completed in 2019, 3sHealth provided results of the five supplier performance reviews to senior management and the Board on January 14, 2020. We found 3sHealth was using the review results to resolve identified performance issues with its suppliers.



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

### 3.3 Feedback from Member Agencies Obtained Prior to Extending Purchase Commitments

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***We recommended 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, p. 197, Recommendation 8; Public Accounts Committee agreement June 12, 2018)

**Status**—Intent of Recommendation Implemented

3sHealth provides its national group purchasing organization with feedback prior to the organization extending existing purchase commitments. Purchase commitments are agreements between 3sHealth, its member agencies and the national organization to buy certain goods or services from a single supplier at a set price for a set period of time.<sup>4</sup>

Prior to extending existing purchase commitments, the national organization sends a supplier performance survey to its national members (like 3sHealth). The survey consists of questions similar to 3sHealth's supplier performance review discussed in **Section 3.2**. The national organization is to use this information from its members (nation-wide) to help determine if it will extend existing purchase commitments with the supplier.

In January 2020, 3sHealth received the opportunity to respond to the most recent survey and provide feedback on suppliers by February 2020. 3sHealth encourages each of its member agencies to complete the survey. We confirmed member agencies were responding to the survey.

Having its member agencies provide feedback to its national group purchasing organization prior to that organization extending existing purchase commitments decreases the risk of extending purchase commitments that do not meet the needs of its member agencies (e.g., using suppliers with performance issues).

### 3.4 Estimated Cost Savings Explained to the Public

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***We recommended 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, p. 202, Recommendation 13; Public Accounts Committee agreement June 12, 2018)

**Status**—Implemented

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<sup>4</sup> 3sHealth uses its contract with the national group purchasing organization to increase purchasing power through shared national agreements. Through the national group purchasing organization, 3sHealth and member agencies can enter into agreements to access volume discounts gained through partnering with jurisdictions seeking similar products.

3sHealth publishes on its website its estimate of annual and cumulative cost savings to the health-care system (referred to as Health System Savings).<sup>5</sup> Its webpage includes a link to its description of how it determines its estimated annual and cumulative savings, and an audited Statement of Cumulated Savings for the seven-year period ending March 31, 2017.<sup>6,7,8</sup>

In 2017, 3sHealth published the audited Statement of Cumulative Savings for the seven-year period ending March 31, 2017 to provide the public with assurance that it follows its methodology when it estimates its annual and cumulative savings.

We found the 2017 Statement of Cumulative Savings and its accompanying notes clearly describe the methodology 3sHealth uses to estimate savings, and gives the public sufficient information to understand the methodology in use.

We also found the description in the 2017 Statement of Cumulative Savings more understandable and complete than the webpage description. For example, the Statement more clearly shows the cumulative savings is comprised of estimated savings from new contracts, one-time events (like rebates), and recurring savings.<sup>9</sup> When determining recurring savings, it shows 3sHealth assumes savings from prior years will continue indefinitely.

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

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<sup>5</sup> [www.3shealth.ca/Default.aspx?PageID=16681632&A=SearchResult&SearchID=32459864&ObjectID=16681632&ObjectType=1](http://www.3shealth.ca/Default.aspx?PageID=16681632&A=SearchResult&SearchID=32459864&ObjectID=16681632&ObjectType=1) (25 February 2020).

<sup>6</sup> [www.3shealth.ca/pdfs/3sHealth-Statement-of-Cumulative-Savings.pdf](http://www.3shealth.ca/pdfs/3sHealth-Statement-of-Cumulative-Savings.pdf) (25 February 2020).

<sup>7</sup> The 2017 audit report emphasizes the *Statement of Cumulative Savings* is prepared to assist 3sHealth to monitor savings achieved through its activities, and, as a result, may not be suitable for another purpose.

<sup>8</sup> [www.3shealth.ca/pdfs/Annual-and-cumulative-savings-Calculations-v3-final.pdf](http://www.3shealth.ca/pdfs/Annual-and-cumulative-savings-Calculations-v3-final.pdf) (25 February 2020).

<sup>9</sup> 3sHealth calculates contract savings based on the following formula: Current Volumes multiplied by (old price + expected price increase – new price).