AUDITOR GENERAL'S DEPARTMENT
PERFORMANCE AUDIT REPORT
MINISTRY OF HEALTH (MOH)
SOUTH EAST REGIONAL HEALTH AUTHORITY (SERHA)

Securing Value for Money from the Procurement of Goods and Services

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This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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Vision

Promoting a better country through effective audit scrutiny of Government operations.

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Acronyms

MOF	Ministry of Finance
MOH	Ministry of Health
RHA	Regional Health Authority
SERHA	South East Regional Health Authority
NCC	National Contracts Commission
HHDs	Hospitals and Health Departments

Hospitals

STH	Spanish Town Hospital
KPH	Kingston Public Hospital
VJH	Victoria Jubilee Hospital
PMH	Princess Margaret Hospital
LH	Linstead Hospital
NCH	National Chest Hospital
BHC	Bustamante Hospital for Children
SJGRC	Sir John Golding Rehabilitation Centre
HI	Hope Institute

Health Departments

St. Catherine Health Services
St. Thomas Health Services
Kingston & St. Andrew Health Services

Funding Agencies

CHASE Fund	Culture, Health, Arts, Sports and Education Fund
NHF	National Heath Fund

Auditor General's Overview

The procurement of goods and services is critical to the delivery of healthcare, administered by four Regional Health Authorities (RHAs). The South East Regional Health Authority (SERHA), the largest of the four, has responsibility for nine hospitals and 91 health centres in the parishes of Kingston and St. Andrew, St. Catherine and St. Thomas, when combined, represent 47 per cent of Jamaica's population. For the financial years 2011-12 to 2016-17, Parliament allocated $87.6 billion to SERHA, of which $25.5 billion (or 29 per cent) was allotted for the purchase of goods and services, the second largest cost after salaries and wages, making it a key expenditure area. SERHA also received financial support of $1.4 billion from the Culture, Health, Arts, Sports and Education (CHASE) Fund and National Health Fund (NHF). However, these allocations combined, fell short of SERHA's budgetary requests, by $31 billion for the six-year period. In order to facilitate the delivery of quality healthcare within the context of tight fiscal constraints, it is important for SERHA to obtain value for money from its expenditures.

We conducted a performance audit to determine whether SERHA's procurement activities were in keeping with good governance practices to obtain value for money. We found weaknesses in SERHA's procurement practices, which hindered its ability to maximise value for money. For the most part, SERHA adhered to the procurement guidelines in carrying out its procurement activities; however, its procurement practices did not always demonstrate that efforts were made to ensure that value for money was obtained. While SERHA developed strategic plans, the Authority's assessment of needs was inadequate and lacked defined strategies for the allocation of resources, which is an important first-step in the procurement process. This impaired SERHA's ability to develop annual plans for its procurement activities to ensure the best use of money to maximise value. I urge SERHA and MOH to consider for implementation, the recommendations contained in this report.

Thanks to the management and staff of SERHA, hospitals and health departments (HHDs) for the cooperation and assistance given to my staff, during the audit.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

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HIGHLIGHT

Over the six-year period, 2011-12 to 2016-17, the Government of Jamaica (GOJ) provided $87.6 billion in budgetary support to SERHA, of which $25.5 billion (29 per cent) was allocated for the purchase of goods and services, the second largest cost after salaries and wages, making it a key expenditure area. Even with additional support of $1.4 billion from the CHASE Fund and NHF, SERHA had budgetary shortfall of $31 billion. In the context of the budgetary shortfall and strained public resources, it is important that SERHA obtain value for money from the procurement of medical supplies and equipment, which is critical to delivering efficient healthcare services.

What do stakeholders want from SERHA's procurement functions?

- *The **Public** wants the assurance that their tax dollars are being spent economically to provide quality and efficient health services.*

- ***Patients** want to be assured that the procurement activities are efficiently managed to enable the availability of functioning medical equipment and critical medical supplies.*

- ***Medical Practitioners** want to be assured that the procurement activities are being efficiently managed to enable the availability of medical supplies and equipment to effectively execute their functions.*

- ***Suppliers** want the assurance that SERHA's procurement activities are transparent and fair in the awarding of contracts.*

- ***Parliament** wants to be assured that value for money is being obtained through SERHA's procurement activities.*

Summary

The procurement of medical supplies and equipment is critical to the delivery of efficient and effective healthcare services in Jamaica. SERHA has responsibility for managing the procurement activities in nine hospitals and 91 health centres in Kingston and St. Andrew, St. Catherine and St. Thomas, which represent 47 per cent of the population. For the financial years 2011-12 to 2016-17, Parliament allocated $87.6 billion to SERHA to fund its operations, of which $25.5 billion (or 29 per cent) was allotted for the purchase of goods and services, the second largest allocation after salaries and wages, making it a key expenditure area. Even with additional funding of $1.4 billion from the Culture, Health, Arts, Sports and Education (CHASE) Fund and National Health Fund (NHF), SERHA had budgetary shortfall of $31 billion, over the assessed period. With public expectation of quality healthcare delivery, it is important that SERHA obtain value from money spent especially in the context of its budgetary shortfall and strained public resources.

We conducted a performance audit to determine whether SERHA is managing its procurement activities well to obtain value for money. An efficient procurement process involves purchasing practices that seek to control costs and facilitate transparency and objectivity in the process. For the most part, SERHA adhered to the procurement guidelines in carrying out its procurement activities; however, its procurement practices did not always demonstrate that efforts were made to ensure that value for money was obtained as indicated in the findings below.

Key Audit Question Is SERHA managing its procurement activities to obtain value for money?

Key Findings

SERHA did not have documented strategies for assessing needs and allocation of resources

1. **SERHA's Board of Directors did not define strategies for regional needs assessment to ensure optimum allocation of resources[1].** The procurement process begins with identifying and prioritizing purchasing needs. However, SERHA did not provide documented evidence of a defined strategy for assessing needs within the region to inform its funding decisions, and a framework for prioritizing the procurement and allocation of goods and services over the medium to long-term. SERHA's approach towards determining needs was limited to discussions at monthly management meetings and compiling budget requests submitted by hospitals and health departments (HHDs). Approved budgetary resources were allocated to HHDs based on their size and the extent of the services they offer. This narrow approach to regional needs assessment and allocation of resources limited SERHA's ability to develop suitable procurement plans, which would prioritise and drive the execution of its procurement decisions to maximize value for money and achieve strategic and operational objectives.

[1] A needs assessment is a methodical approach for determining and addressing needs, or gaps between existing conditions and desired conditions or wants. The discrepancy between the existing conditions and desired conditions should be measured to appropriately identify the need.

Weaknesses in Managing Procurement Activities

2. **SERHA did not incorporate an analysis of related data in its procurement decisions.** Analysis of procurement activities is an essential part of procurement management that assists an entity in making cost effective purchasing decisions. However, SERHA did not conduct analyses of procurement activities as part of its procurement management and further, did not have an efficient system to collate the data. SERHA's procurement files were manual and unstructured, which affected its ability to collate and analyse data. In that regard, we were also unable to review the procurement process for 20 contracts for works and purchase of biomedical equipment valuing $123.5 million, because the requested files could not be located. SERHA purchased goods and services on behalf of HHDs for procurements valued above $1.5 million, while HHDs self-managed procurements for less than that value. HHDs purchased pharmaceuticals and medical sundries from GOJ-owned National Health Fund (NHF) amounting to $6.5 billion between March 2011 and September 2016. NHF applied a mark-up of 30 per cent for supplies acquired by the RHAs. However, SERHA did not determine if the prices charged by NHF were competitive[2]; which, may have been influenced by SERHA's undue reliance on NHF's credit facility to supplement cash constraints. SERHA owed NHF $3.5 billion as at March 31, 2017. SERHA's dependence on NHF for credit support may have denied it the opportunity of better prices through negotiation supported by proper procurement practices. This reinforces the necessity to engage in robust procurement management to mitigate the challenges brought about by cash shortages.

3. **SERHA did not ensure that HHDs purchased supplies at the most economical price.** We found that HHDs independently sourced supplies and made multiple small purchases of frequently used items from different suppliers at varying prices. HHDs then submitted those purchase orders to SERHA for payment. SERHA could have realized significant savings had it engaged a system of collaborative purchases and sourced frequently used items from the suppliers with the most competitive prices. We analysed a sample of 22 transactions undertaken in 2015-16 for the purchase of five frequently used sundry items and found that HHDs purchased varying quantities of these items at different unit prices, for a total cost of $4.4 million[3]. Had SERHA surveyed suppliers and purchased these five items collectively from the best option, the Authority would have paid $3.4 million and realized savings of $1 million. This sample represented only a small fraction of SERHA's procurement activities; however, considering the recurrent acquisition of these and other regular supplies, SERHA could have benefitted from significant savings through joint purchases.

    I. In the context, where SERHA is a major buyer, SERHA not only had the potential to save through effective bulk purchases, but could also make use of a central register of suppliers and their prices to assist HHDs to identify and request quotes for supplies at the most competitive price. SERHA indicated that where NHF was unable to deliver supplies within a specific time, HHDs purchased from private suppliers to ensure continued service delivery. It was difficult for SERHA to track excess inventory and allow HHDs to borrow from each other

[2] The procurement guidelines permit direct contracting between government entities, but requires the procuring entity to ensure that the rates charged are competitive and offer value for money; otherwise, the procuring entity should revert to a competitive tender process as stipulated in the procedures.

[3] Industrial hand towel, hand towel dispenser, hand sanitizer, toilet tissue and sodium hydrochloride (bleach).

because each HHD maintained separate inventory systems, which contributed to multiple small purchases. Given the magnitude of costs under its purview, SERHA should have ensured it had adequate systems in place to serve the interest of the HHDs.

4. **SERHA's failure to employ the competitive bidding process for the renewal of contracts for four critical hospital services inhibited the Authority's ability to ensure value for money.** An important aspect of contract management is the timely planning for contract expiry. However, SERHA did not have contracts in place for the provision of cleaning and portering, laundry, dietary, and security services, as these contracts were expired for periods up to six years. SERHA continued to engage the suppliers of these services using the direct contracting methodology, making payments totalling $1.6 billion over the period. This arrangement, which was in breach of Section 1.1.4 of the Procurement Guidelines, prevented SERHA from ensuring it obtained the most competitive price for these services. The absence of formal contracts could have robbed SERHA of surety of services and may leave the Authority without recourse in the event of losses related to unsatisfactory performance, for which the suppliers could be held accountable.

   SERHA indicated that:

   *"*One of the main challenges was the shortage of adequate procurement staffing that prevented timely procurement processes…As *of October 2016, only one Procurement Officer out of a staff complement of four had to carry the procurement duties. SERHA has tried assiduously to recruit and retain competent and experienced staff, however, this effort proved futile".* **Extracted from SERHA's Response**

5. **SERHA was not sufficiently informed of the considerations involved in standardization of medical equipment to enable its selection of the most suitable procurement methodology.** Recognising that standardization is likely to engender cost and operational efficiency, MOH developed a policy, on a phased basis, to standardize the brand of three types of equipment used in hospitals; namely, patient monitors, x-ray units and sterilizing equipment. As part of the due diligence process, we expected MOH, in consultation with regional authorities to undertake cost benefit analysis of standardization; conduct an assessment to determine the preferred brand and suppliers and consider the risks associated with standardization. However, MOH did not provide us with documentary evidence that adequate due diligence was undertaken to inform its decision to implement its policy of standardization of hospital equipment and SERHA was not adequately informed regarding the various considerations by MOH in its implementation of this policy. Adequate assessment of the potential risks and mitigating circumstances may protect the GOJ's interest in a context where standardization of major equipment could result in the creation of a monopoly and high exit costs in the event of unsatisfactory maintenance performance and outcomes.

   I. SERHA used the direct contracting methodology as recommended by MOH, to purchase 27 patient monitors for $8.7 million and two x-ray machines for $104 million. However, the reasons advanced by MOH to use the direct contracting methodology in procuring the

equipment were not consistent with those specified by the Procurement Guidelines[4]. Further, we saw no evidence of assessment regarding the selection of this methodology over the competitive tender methodology. Undertaking such assessment would not only demonstrate that the selection process was objective and transparent, but would have provided SERHA with a basis for selecting a methodology that would maximize value for money. However, SERHA did not inform itself of the most effective method of procurement that would meet the objectives of MOH. Although the National Contracts Commission (NCC) approved the direct contracting for selecting the preferred brands and suppliers as requested by MOH, SERHA did not assure itself that this method was more beneficial than the competitive bidding process.

Recommendations

To maximize the potential to achieve value for money, SERHA and MOH should immediately consider for implementation the following recommendations.

1. SERHA should undertake a comprehensive regional needs assessment and define strategies for optimal allocation of resources, which would inform its procurement activities and achieve value for money.

2. SERHA should analyse its procurement practices and patterns to ensure that goods and services are acquired at the most economical prices; including the procurement of critical hospital services for which no current contracts exist and ensure compliance with the GOJ's Procurement Guidelines.

3. MOH and SERHA should review the current standardization arrangement for medical equipment, as well as the associated risks to ensure transparency, objectivity and the achievement of value for money.

[4] The Procurement Guidelines authorise the use of the direct contracting methodology for contracts valued up to $500,000. The Guidelines allow for the use of the direct contracting methodology above this limit under certain circumstances including: where the procurement is of a confidential nature; the supplier has exclusive rights to supply the goods or services; standardizing equipment is available only from a specific source; for the purposes of research and reasons of extreme urgency. GOJ Handbook of Public Sector Procurement Procedures Volume 2, Section 1.1.4.

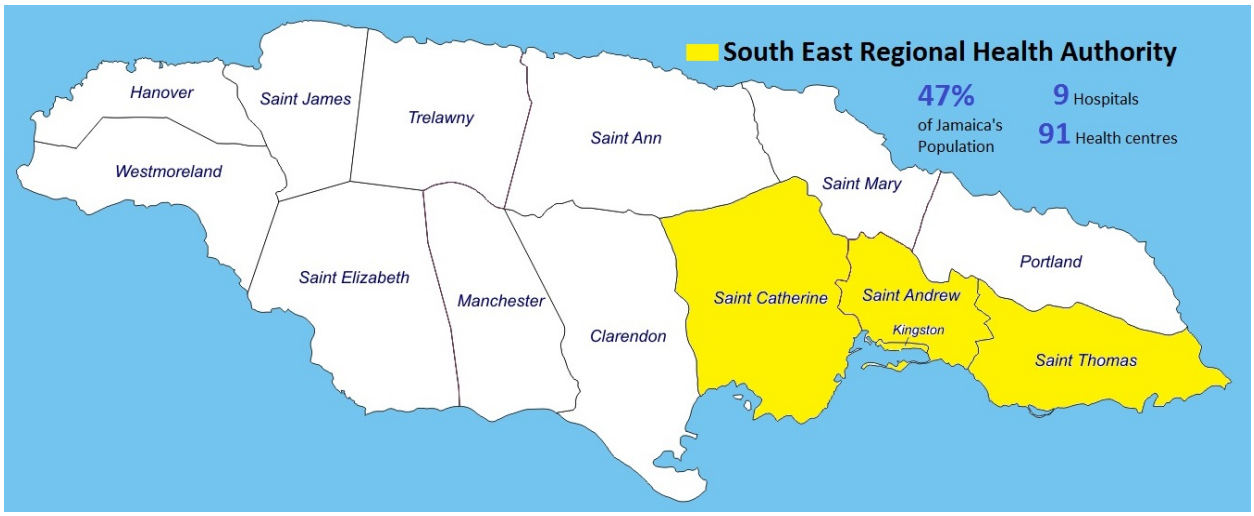
Part One

Introduction

Procurement responsibility of SERHA

1.1 The South East Regional Health Authority (SERHA) is the largest of four Regional Health Authorities (RHAs), established by the promulgation of the Health Services Act (1997), primarily to foster improvements in the delivery of healthcare services in Jamaica. SERHA has responsibility for the procurement of goods and services supplied to nine hospitals and 91 health centres in Kingston and St. Andrew, St. Catherine and St. Thomas, which comprise the health region and represent 47 per cent of Jamaica's population **(Figure 1)**. SERHA's mission, in part, is to promote and safeguard the health of the Jamaican people through the provision and monitoring of cost-effective, preventive, curative, promotive and rehabilitative services.

Figure 1: Geographic location of SERHA



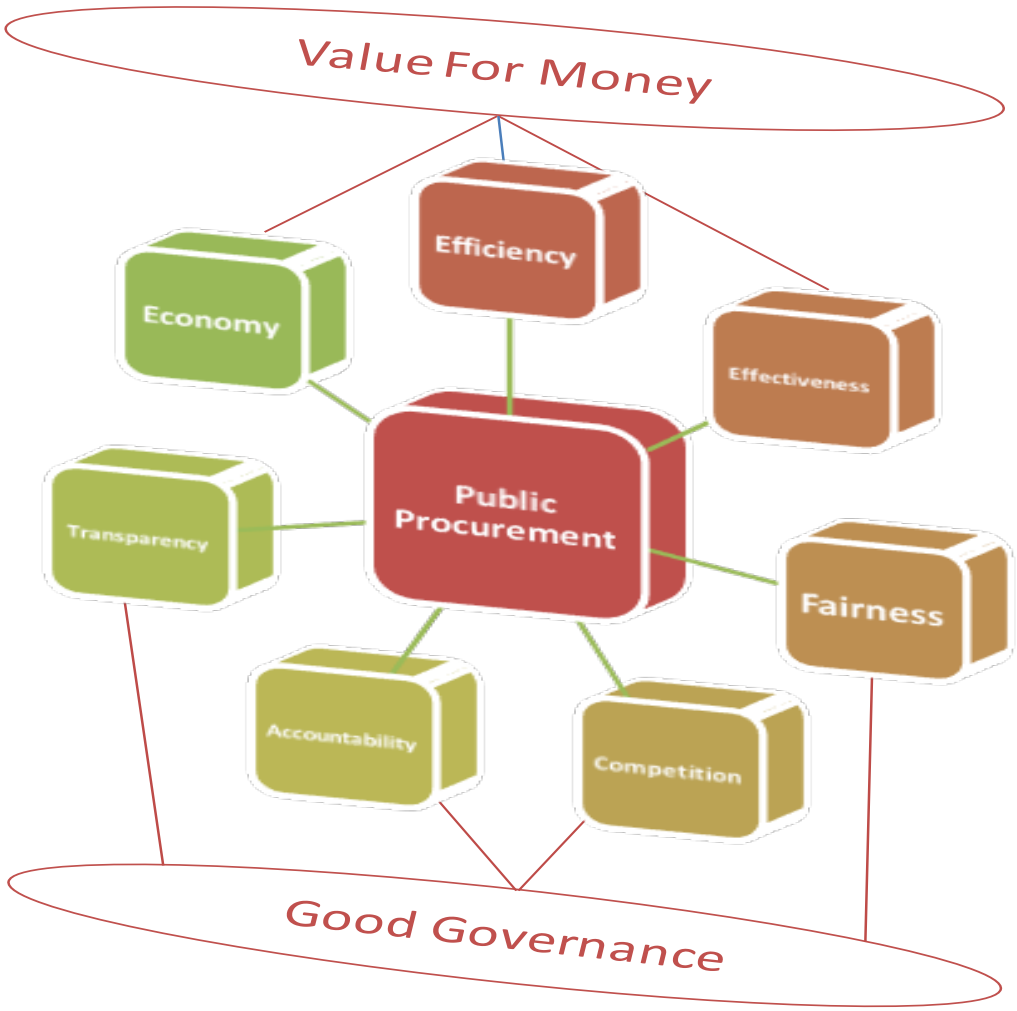
Source: AuGD

1.2 SERHA's Board of Directors has overall responsibilities for the management of healthcare delivery in the Region. SERHA centralises the purchase of high value (i.e. goods and services valuing more than $1.5 million) supplies on behalf of hospitals and health departments (HHDs). On the other hand, HHDs self-manage purchases valuing less than $1.5 million. Similar to other Ministries, Departments and Agencies, SERHA is required to comply with GOJ Handbook of Public Sector Procurement Procedures.

Principles of public procurement

1.3 Procurement is an essential activity within the public sector, which goes beyond basic ordering and paying for goods and services. This activity involves strategic planning; order management and cost control which, in order to be efficient and effective, must be conducted in line with the principles of good governance with a view to achieve value for money **(Figure 2)**.

Figure 2: General Principles of public procurement



1.4 Accordingly, the three principles on which value for money is built; namely economy, efficiency, and effectiveness are consistent with the Government's Procurement Guidelines, which aim to promote and encourage transparency, accountability, competition and fairness (equal treatment) in the procurement process **(Figure 3)**.

Figure 3: Building Blocks of the Procurement Function

ECONOMY is keeping the resources costs low. The resources used should be available in due time, in appropriate quality and quantity and at the best price.	**EFFICIENCY** is getting the most from available resources. It is concerned with the relationship between resources employed, conditions given and results achieved in terms of quality, quantity and timing of outputs and outcomes.	**EFFECTIVENESS** is meeting the objectives set. It is concerned with attaining the specific aims or objectives and/or achieving the intended results.

Audit rationale

1.5 There have been public concerns regarding the quality of healthcare delivery with a plethora of causes ascribed to the problem including shortages of medical supplies and inadequate or non-functioning equipment. Of the $87.6 billion allocated to SERHA in the Government budget over the six-year period, $25.5 billion (29 per cent) was assigned for the purchase of goods and services, making it a key expenditure area. Against this background, it is important that SERHA obtains value for money spent especially in the context of strained public resources.

Audit objectives, scope and methodology

1.6 The audit assessed whether the procurement of goods and services by SERHA accords with the Government's Procurement Guidelines and good governance, to attain value for money. The audit review covered the financial years, 2011-2012 to 2016-17 and focused on defining and prioritizing needs and the management of procurement activities.

1.7 Our assessment was based on the review of internal and external documents, interviews with senior management and staff, observations and analyses of information provided by SERHA and selected hospitals. We planned and conducted our audit in accordance with the Government Auditing Standards, which are applicable to Performance Audit as well as standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

Part Two

Assessing and Prioritizing Procurement Needs

2.1 Over the six-year period, 2011-12 to 2016-17, SERHA requested $120 billion for budgetary support to fund critical recurrent and capital activities. However, GOJ provided $87.6 billion (73 per cent) of the amount requested; of which $25.5 billion (29 per cent) was allocated for the purchase of goods and services that are central to the delivery of healthcare. With additional support of $1.4 billion from NHF and CHASE Fund, mainly to fund capital projects, SERHA had budgetary shortfall of $31 billion, over the period **(Figure 4)**.

Figure 4: Analysis of budget requested and funding received, 2011-2017

F/Y	Total Approved Budget $'000	Capital A $'000	Total Recurrent and Capital Budget $'000	Funding Agency $'000	Total GOJ and Funding Agency $'000	Budget Requested by SERHA $'000	Variance (Funding received and requested) $'000
2016-17	18,842,279	741	18,843,020	75,325	18,918,335	27,350,240	(8,431,894)
2015-16	17,462,479	1,715,500	19,177,979	585,252	19,763,231	23,376,876	(3,613,644)
2014-15	12,401,788	1,273,500	13,675,288	133,239	13,808,527	20,166,159	(6,357,632)
2013-14	11,639,465	1,970,400	13,609,865	342,633	13,952,498	18,446,523	(4,494,025)
2012-13	11,217,223	600	11,217,823	151,273	11,369,096	16,078,458	(4,709,362)
2011-12	11,047,708	896	11,048,604	149,573	11,198,177	14,605,431	(3,407,253)
Total	**82,610,942**	**4,961,637**	**87,572,579**	**1,437,295**	**89,009,864**	**120,023,687**	**(31,013,810)**

Source: AuGD analysis of SERHA's financial records 2011-12 to 2016-17

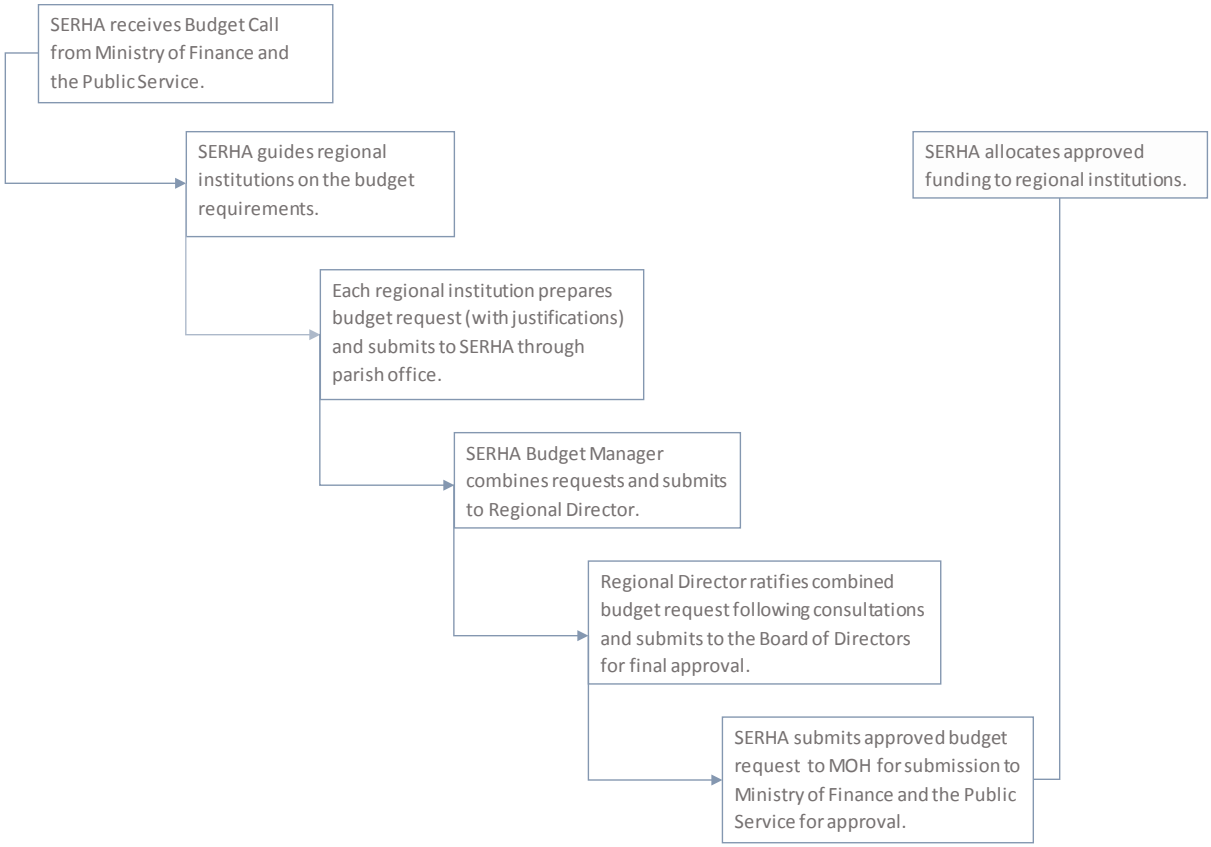
SERHA's approach towards needs assessment lacked clearly defined strategies

2.2 It is important that SERHA strategically plan procurement activities to ensure the most efficient use of money. Identifying and prioritizing procurement needs are important first-steps to procurement management. However, we found no evidence that the Board of Directors ensured that SERHA applied a strategic approach towards assessing needs and prioritizing procurement activities[5]. SERHA is responsible for procurement for the Region, which covers 47 per cent of the population. However, SERHA did not provide documented evidence of a defined strategy for assessing needs within the Region to inform its funding decisions and a framework for prioritizing the procurement and allocation of goods and services over the medium to long-term.

[5] A needs assessment is a methodical approach for determining and addressing needs, or gaps between existing conditions and desired conditions or wants. The discrepancy between the existing conditions and desired conditions should be measured to appropriately identify the need.

2.3 SERHA's approach towards determining needs was limited to discussions at monthly management meetings and compiling the budget requests submitted by hospitals and health departments (HHDs) **(Figure 5)**. Even with this approach, we found no evidence that SERHA analysed the requests before inclusion in the submission to MOH. SERHA explained that it allocated the approved budgetary resources to HHDs based on the size of the institution and the extent of the services they offer. This approach towards needs assessment limited SERHA's ability to develop suitable procurement plans with clear and measurable targets based on priority, to inform its budgets.

Figure 5:
SERHA's Budget Process



HHDs submit annual budget requests to SERHA, which compiles and submits these requests to the Ministry of Finance and the Public Service, through MOH. Approved budgetary resources are allocated to HHDs based on the size of the institution and the extent of the services offered.

NOTE
SERHA received funding directly from the Ministry of Finance and the Public Service.

Source: AuGD – consultation with SERHA

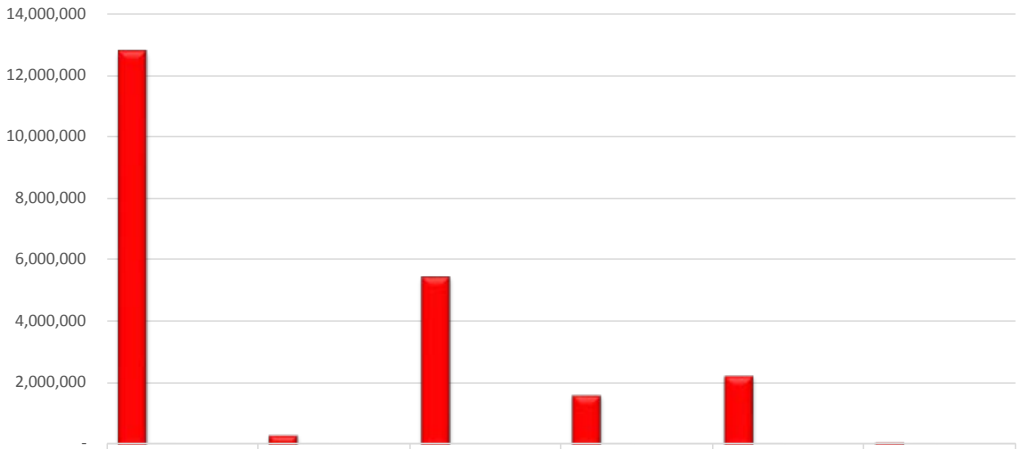
Part Three

Managing Procurement Activities

3.1 SERHA undertakes a significant number of procurement transactions each year; however, SERHA was unable to provide details of all procurement transactions undertaken over the last five years, 2011-12 to 2015-16. We obtained information on procurement transactions valued above $275,000 that were provided to the Office of the Contractor General (OCG) by SERHA, as part of its reporting responsibility. Our analysis of this information revealed that over the period, SERHA undertook 3,973 procurement transactions, valued at $22 billion.

3.2 Limited tender was the most widely used method of procurement, accounting for 37 per cent of the total number of transactions and valued $3.2 billion. Government-to-government transactions accounted for 29 per cent at a value of $7 billion, of which $6.5 billion was for purchase of pharmaceutical and medical sundries from the National Health Fund (NHF). Of note, the direct and emergency contracting methodologies represented 31 per cent of the total number of transactions valuing $13 billion, accounting for the greatest percentage of expenditure. The other procurement methods, when combined, represented 41 per cent of the number of transactions at a value of $9.3 billion **(Figure 6)**.

Figure 6: Analysis of procurement methodologies for transactions above $275,000 (2011 to 2016)



	Direct Contracting	Direct Contracting Emergency	Government to Government	Local Competitive Bidding	Limited Tender	Selective Tender
Contract Values (J$'000)	12,777,166	283,227	5,457,406	1,608,944	2,228,766	19,870
No. of Contracts	1,210	20	1,168	78	1,492	5
Percentage of total Contract Value	57.10%	1.27%	24.39%	7.19%	9.96%	0.09%
Percentage of total No. of Contracts	30.46%	0.50%	29.40%	1.96%	37.55%	0.13%

SERHA was inconsistent in preparing procurement plans

3.3 To SERHA's credit, the Authority developed strategic business plans that covered the financial years 2010-11 to 2016-17. However, SERHA was not consistent in preparing the related annual procurement plans. SERHA prepared procurement plans for only two years, 2013-14 to 2014-15, which did not provide details of its purchasing activities that would have enabled us to determine the extent to which actual procurement activities were consistent with the procurement plans. Further, whereas SERHA prepared operational plans for the last two years, 2015-16 and 2016-17, SERHA did not prepare the procurement plans, which are required to provide details of how the Authority would prioritise spending to execute its procurement decisions. Failure to consistently prepare annual procurement plans was not only a breach of the GOJ Procurement Guidelines, but also hindered SERHA's ability to systematically plan for the achievement of its strategic and operational objectives[6].

3.4 Of note, SERHA included the replacement of critical medical equipment in hospitals, particularly the installation of X-ray Unit at KPH, as major targets in its 2016-17 Operational Plan. However, SERHA was unable to facilitate the timely repairs, disposal or replacement of major medical equipment, which were out-of-service for extended periods. During our visits to five hospitals in March 2017, we examined a sample of 18 pieces of medical equipment and found that seven were out of service for periods ranging from one month to four years **(Appendix 1)**. We observed that SERHA purchased four surgical tables - three located at the Spanish Town Hospital (STH) at a cost of $7.6 million each and one at the Kingston Public Hospital (KPH) for $6.3 million. Our visit to these facilities revealed that two of the three tables at STH had been out-of-service since January 2017 and the one at KPH went out-of-service in 2015, shortly after purchase. SERHA did not provide details of the nature of repairs, estimated costs and the reasons for the delay in repairing the tables. Therefore, we were unable to ascertain how SERHA could enforce accountability from the suppliers especially if there were attached warranties. Further, KPH informed us that they reverted to using an old makeshift manual table to perform some surgical procedures. Accordingly, SERHA would not have obtained value for the $6.3 million used to purchase the table.

Photographs of surgical tables located at KPH

Picture 1 New Surgical Table out-of-service seen stored in a passageway in the operating unit at KPH.

Picture 2 Old Surgical Table in use in the operating theatre at KPH.

[6] GOJ Handbook for Public Sector Procurement Volume 2, Page 32, Appendix 1.6 "Ministry of Finance requires that every procuring entity submit a procurement plan with their Corporate and Operational plans and budgets to support the projected expenditure of their ministries. An updated copy of the previous years plan should also be included".

SERHA's purchasing decisions were not informed by formal cost benefit analyses

3.5 We reviewed a sample of procurement files and found that for the most part, SERHA adhered to the Procurement Guidelines. However, SERHA did not analyse procurement data as part of its procurement management functions, to identify cost inefficiencies in order to make better procurement decisions. Analysis of procurement activities is an essential part of procurement management that provides useful information in making cost effective purchasing decisions. However, we saw no evidence of a comprehensive database or the analysis of procurement data that would enhance SERHA's ability to achieve optimal benefit from its procurement activities. The unavailability of collated data also limited our ability to analyse SERHA's purchasing patterns over the period, 2010-11 to 2016-17; information that could inform cost benefit analyses and result in cost savings to the Authority. In the absence of historical data, we could not identify how SERHA satisfied itself that it was making the best use of its limited financial resources.

3.6 In addition, the Procurement Guidelines permit Government entities "to enter into contractual agreements with each other for the provision of goods and services by means of direct contracting. For such purchases, the procuring entity must ensure that the rates charged are competitive and offer value for money. Where it is clear that value for money will not be obtained, the procuring entity should revert to a competitive tender process as stipulated in the procedures[7]". SERHA purchased goods and services on behalf of HHDs for procurements valued above $1.5 million, while HHDs self-managed procurements for less than that value. HHDs purchased pharmaceuticals and medical sundries from GOJ-owned National Health Fund (NHF) amounting to $6.5 billion between March 2011 and September 2016. NHF applies a mark-up of 30 per cent for supplies acquired by the RHAs. However, SERHA did not determine if the prices charged by NHF were competitive; which, may have been influenced by SERHA's undue reliance on NHF for credit to supplement cash constraints[8]. SERHA provided information, which showed that it owed NHF $3.5 billion as at March 31, 2017[9]. SERHA's dependence on NHF for credit support may have denied it the opportunity of better prices through negotiation supported by proper procurement practices. This reinforces the necessity to engage in robust procurement management to mitigate the challenges brought about by cash shortages.

3.7 SERHA maintained manual and unstructured procurement files, which not only impeded analysis of trends, but also prevented our review of the procurement process for 20 contracts for works, and purchase of biomedical equipment valuing $123.5 million. SERHA indicated that they were unable to locate the files. Further, SERHA explained that its institutional capacity was limited as the Authority was without the full complement of procurement officers.

SERHA noted:

*"*One of the main challenges was the shortage of adequate procurement staffing that prevented timely procurement processes…As *of October 2016, only one Procurement Officer out of a staff complement of four had to carry the procurement duties. SERHA has tried assiduously to recruit and retain competent and experienced staff, however, this effort proved futile".* **Extracted from SERHA's Response**

[7] GOJ Handbook of Public Sector Procurement Procedures Section 1 (1.2.3).

[8] The Procurement Guidelines permit direct contracting between government entities, but require the procuring entity to ensure that the rates charged are competitive and offer value for money; otherwise, the procuring entity should revert to a competitive tender process as stipulated in the procedures.

[9] Of this amount, $2.6 billion (74 per cent) over 90 days.

Multiple small purchases of frequently-used supplies prevented SERHA from realizing savings

3.8 By not availing itself of analysis that could inform its purchasing decisions, SERHA denied itself the potential benefits of cost savings through a system of collaborative procurement, which facilitates discounts from bulk purchases or preferred customer relationships with suppliers based on its size. SERHA purchased goods and services on behalf of HHDs for procurement valued above $1.5 million. On the other hand, SERHA allowed HHDs to self-manage procurements valued below $1.5 million and as such, HHDs sourced supplies independently from different private suppliers. Our review of procurement records revealed that HHDs made multiple purchases in small quantities, of frequently used supplies from different suppliers at varying prices. SERHA could have realized significant savings had it engaged a system of coordinated purchases and sourced frequently used items from the suppliers with the most economical prices.

3.9 We selected five sundry items frequently used by HHDs namely, industrial hand towels, hand towel dispenser, hand sanitizer, toilet tissue and sodium hydrochloride (bleach) and conducted an analysis of the purchases. We found instances where HHDs purchased the same items, within the same period, from different suppliers at different prices. From our analysis of a sample of 22 transactions undertaken in 2015-16 for the purchase of these five frequently used sundry items, we found that HHDs purchased varying quantities of the items at different unit prices, for a total cost of $4.4 million[10]. Had SERHA surveyed suppliers and purchased these five items collectively from the best option, the Authority would have paid $3.4 million and realized savings of $1 million. This sample represented only a small fraction of SERHA's procurement activities; however, considering the recurrent acquisition of these and other regular supplies, SERHA could have benefitted from significant savings through joint purchases.

3.10 In the context, where SERHA is a major buyer, SERHA not only had the potential to save through effective bulk purchases, but could also make use of a central register of suppliers and their prices to assist HHDs to identify and request quotes for supplies at the most competitive price. However, we found no evidence that SERHA maintained such register.

SERHA did not track excess inventory items within HHDs

3.11 SERHA indicated that where NHF was unable to deliver supplies within a specific time, HHDs purchased from private suppliers to ensure continued service delivery. It was difficult for SERHA to track excess inventory and allow HHDs to borrow from each other because each HHD maintained separate inventory systems. This also contributed to multiple small purchases. In recent times, SERHA has implemented a computerized inventory system only for equipment as a pilot project at the Bustamante Hospital for Children. Given the magnitude of costs under its purview, SERHA should have ensured it had adequate systems in place to serve the interest of the HHDs.

SERHA's engagement of the suppliers of hospital services limited its ability to maximize value for money

3.12 SERHA did not have contracts in place to govern the provision of cleaning and portering, laundry, dietary, and security services. An important aspect of contract management requires timely planning for contract expiry. However, contracts with nine suppliers to provide these services were expired for periods

[10] Industrial hand towel, hand towel dispenser, hand sanitizer, toilet tissue and sodium hydrochloride (bleach)

up to six years. SERHA continued to engage the suppliers without written contracts and made payments totalling $1.6 billion over the period **(Figure 7)**. SERHA's action to engage the suppliers using the direct contracting methodology was in breach of Section 1.1.4 of the Procurement Guidelines. This arrangement prevents SERHA from ensuring that it has obtained the best possible prices on a competitive basis.

Figure 7: Hospital Services with expired contracts

Services	Hospital	Payments $'000
Laundry	BHC	$25,676
Laundry	STH, KPH, VJH, BHC, NCH	$250,235
Laundry	BHC	$2,236
Dietary Service/ Catering	KPH,VJH,NCH, STH	$715,648
Security Services	KPH & VJH	$69,917
Security Services	SCHS	$97,637
Security Services	SJGRC, HI, STHS & NCH	$14,131
Cleaning & Portering	BHC, KPH/VJH	$257,456
Cleaning & Portering	STH	$207,272
Total		**$1,640,208**

Source: AuGD analysis of information

3.13 SERHA's failure to manage efficiently its contractual arrangements would have prevented the Authority from ensuring that it obtained value for money for the delivery of these hospital services. Without valid contracts, which would establish performance criteria, we could not determine how SERHA satisfied itself that the suppliers met expectations. The absence of formal contracts could have robbed SERHA of surety of services and may leave the Authority without recourse in the event of losses related to unsatisfactory performance of the suppliers. The delay in engaging service providers through a process of competitive bidding was attributable to a combination of weaknesses identified in SERHA's strategic planning and weak oversight from the Board. From our review of the minutes of Board meetings over the last two years, we found no evidence that the Board deliberated the matter of outstanding valid contracts and the implications.

SERHA was not sufficiently informed of the considerations involved in equipment standardization

3.14 MOH initiated a policy to standardize the brand of equipment used in hospitals across regional authorities in an effort to benefit from cost and operational efficiencies. MOH indicated that it entered into an agreement with the government of the Republic of Cuba, through which an island wide review and repair of medical equipment was to be undertaken. MOH also noted that the policy was implemented based on a preliminary report in 2011, which recommended that efforts be made to standardize equipment in the Country[11]. MOH indicated that it decided to embark on a policy of standardization of equipment on a phased basis with the intent to drive certain distinct advantages such as economical use of equipment for the particular purpose. As part of the due diligence process, we expected that MOH, in consultation with regional authorities, would undertake a cost benefit analysis of standardization, conduct

[11] Letter dated February 20, 2012, requesting NCC approval to use the direct contracting methodology

an assessment to determine the preferred brand and suppliers and consider the risks associated with standardization. Adequate assessment of the potential risks and mitigating circumstances would also be necessary to protect the GOJ's interest, if the standardization created a supply monopoly or engender high exit costs in the event of unsatisfactory maintenance performance and outcomes. MOH did not provide us with documentary evidence that adequate due diligence was undertaken to inform its decision to implement its policy of standardization of hospital equipment and SERHA was not adequately informed regarding the various considerations by MOH in its implementation of this policy. In its response, SERHA indicated that it acted in accordance with instructions from MOH. Despite written request, MOH did not provide information regarding its decision to standardize the brand of equipment in hospitals. MOH also had the opportunity to respond to the issues raised in a draft report, but did not provide a response.

3.15 However, we observed in a letter dated February 20, 2012, that MOH sought the approval of the National Contracts Commission (NCC) to use the direct contracting methodology to select the brand and suppliers for three types of equipment; patient monitors, x-ray units and sterilizing equipment. The Procurement Guidelines authorise the use of the direct contracting methodology for contracts valued up to $500,000. Whereas, MOH received approval from the NCC to use the direct contracting methodology to select the preferred brand and suppliers, we were not assured that an adequate assessment was undertaken to select the direct contracting methodology over the competitive bidding methodology. Provision of evidence of such assessment would not only have demonstrated that the process used in selecting the preferred brands and suppliers was transparent and objective, but would have enabled SERHA to inform itself of the best procurement methodology to maximise value for money. SERHA informed us that it purchased 27 patient monitors at a cost of $8.7 million, but did not provide the procurement files relating to these purchases despite requests. SERHA purchased two x-ray machines, one for the Bustamante Hospital for Children and the Linstead Hospital at a total cost of $104 million. However, SERHA did not provide evidence in any of these circumstances, to support the use of direct contracting methodology[12].

Patient Monitors	Radiology equipment	Sterilising equipment
MOH indicated that "it has been determined that the preferred monitor at this time is the Infinium brand. The patient monitors from this brand has been proven to be cost effective, reliable and durable" and noted that the selected supplier was the authorised agent stationed in Jamaica. **MOH did not provide analysis to support the cost efficiency, reliability and durability of the brand.**	MOH noted that it decided to select the brand, General Electric, based on its popularity. MOH also noted that other competitor brands were limited in use in the public sector and the manufacturer has no reputable local agents based in Jamaica. **We found no evidence that MOH solicited proposals from other brand manufacturers and suppliers to determine their capacity to supply equipment under specific terms and conditions.**	MOH noted that it selected AMSCO as the preferred brand for sterilising equipment based on is prevalence in health facilities and considered this brand "to be the one with the most advantages and the one best suited to be used as standard". MOH also noted that service representatives for the AMSCO brand, "though not established in Jamaica is fairly accessible when required". **MOH did not provide any analysis for the basis on which it determined that this brand was the best suited one.**

[12] GOJ procurement handbook Section 1.1.4

Appendices

Appendix 1 Audit inspection of medical equipment

Equipment	Cost ($)	Inventory Location	Condition
Powerpro Pneumatic Power Drill	3,217,880	BHC	Functional
Ventilators	8,003,700	BHC	Functional
Mobile C- Arm	15,103,530	BHC	Functional
Digital Fluoroscopic X-ray Machine	43,519,302	BHC	Functional
Operating Lamp	4,540,963	KPH	Functional
Surgical Table	6,323,212	KPH	Non-functional
GE- MVP Machine	N/P	KPH	Not Functional
GE- Advantix	N/P	KPH	Not Functional
Theatre tables (3)	7,691,600	STH	2 Non-functional
Ultrasound machines (2)	9,090,000	STH	1 Non-functional
Ultrasound Diasonics (2)	5,190,000	STH	Functional
X- Ray Collimator	5,190,000	STH	Non-functional
X-Ray machine	20,892,692	LH	Functional
X-Ray machine	15,657,969	PMH	Functional