



# Procurement Practices in the Health Sector





VICTORIA

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Victorian  
Auditor-General

# Procurement Practices in the Health Sector

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The Hon. Bruce Atkinson MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Ken Smith MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on *Procurement Practices in the Health Sector*.

Yours faithfully



D D R PEARSON  
*Auditor-General*

26 October 2011



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# Audit summary

Victoria's public hospitals bought more than \$1.6 billion of goods and services in 2010–11, their second largest cost after salaries and wages, accounting for almost 15 per cent of expenditure. Such a significant outlay of public funds means procurement activity should demonstrate integrity, transparency and value-for-money.

Health Purchasing Victoria (HPV) is the central procurement agency for the public hospital sector. Set up in 2001 under the *Health Services Act 1988* (the Act), it was expected to improve hospital system effectiveness by:

- facilitating public hospital collaboration to get the best value in purchasing
- reducing inefficient or inappropriate duplication of functions, particularly in tendering
- improving purchasing practices by developing policies and practices that assure probity and improve supply chain management.

HPV procures centrally on behalf of hospitals for high volume, commonly used goods and services. Its contracts cover around 23 per cent of the public hospital procurement spend. For the rest, hospitals manage their own procurement and may buy locally, subject to the conditions of HPV central procurement contracts and policies. The Department of Health (the department) is the state's system manager and is responsible for overseeing the model.

A 2005 audit by this office, *Health Procurement in Victoria*, found that while central procurement had saved hospitals money they could get better value still, and that there was a need for cooperative action to address data and other challenges. The department, HPV and hospitals accepted the audit recommendations. In 2008, the Ombudsman identified probity deficiencies in hospital procurement practices.

The objective of this audit was to determine whether procurement practices in the public hospital sector deliver best value and are conducted with probity and transparency. It assessed the performance of the department, HPV and four hospitals.

## Conclusions

HPV performs central procurement well, has expanded the range of products centrally procured and is making significant savings. However, 10 years after it was established, HPV is yet to implement all its functions under the Act or exploit its full potential. HPV by not undertaking its probity assurance function under the Act, and having only limited involvement in procuring medical equipment has missed opportunities for greater savings and better procurement practice. As system manager, the department should have done more to address these issues.

The responsibilities and performance measures set for HPV in its Memorandum of Understanding (MOU) with the state, as negotiated by the department, addresses only a selection of the functions assigned to HPV in the Act. The department only monitors and reports on HPV's performance against the performance indicators in the MOU. Therefore HPV focuses on fulfilling this agreement and, in so doing, it neglects other important legislative functions.

In 2005, HPV unsuccessfully sought significant additional funds from the department to fulfil its statutory obligations. The HPV board also raised this issue with the department in a board meeting in late 2006. Since then, the department has supported HPV with a series of mostly non-recurrent grants for specific projects. However, these projects have not been aimed at addressing the gaps between HPV's activities and its statutory functions.

As HPV does not assure the probity of public hospital procurement the department lacks information necessary to understand whether the sector's procurement practices are properly conducted. Given the large annual procurement spend, and that section 131(g) of the Act requires HPV to ensure probity, this is a significant shortcoming. The need for oversight is demonstrated by the fact that almost one in five of the hospital procurement processes we reviewed had weaknesses in the transparency and appropriateness of decision-making.

## Findings

### Performance of Health Purchasing Victoria

Despite being established to save money and improve probity in public hospital procurement practices, HPV is not fully discharging its role and responsibilities.

Nevertheless, it has built credibility and improved its relationship with the public hospital sector in recent years and has more than doubled its coverage of sector spend since 2005. HPV's estimate of \$40 million in savings for the sector in 2010–11 is reasonable. Its tendering processes and practices are robust, transparent and well managed with only minor room for improvement.

Its resources, however, are devoted almost entirely to central procurement operations for public hospitals, leading to neglect of its other roles:

- it has not assured the probity of public hospital procurement practices and has not given adequate assurance that hospitals that are asserting compliance with HPV's mandatory contracts are actually complying
- it has not effectively discharged its data sharing and education roles
- it has not exploited the potential for significant additional savings by centrally procuring more complex medical items and equipment
- it has not actively managed contracts to identify and alert all hospitals to additional savings available under these contracts, nor has it measured actual savings

- it has not effectively addressed data challenges raised in this office's 2005 audit despite assurances in its response to that report and in the Minister for Finance's response to the Auditor-General's 2005–06 reports.

HPV started addressing these performance issues during 2010–11 with support from the department. HPV's future success relies on more effective coordination between the department, HPV and hospitals.

## Performance of the Department of Health

The department has not provided HPV with sufficient support for the discharge of its full legislative responsibilities. It influences and monitors HPV through an MOU, signed in October 2006. The responsibilities and key performance indicators for HPV do not address all of the functions assigned by the Act. For example, there are no key performance indicators for HPV's probity monitoring role. The initial MOU expired on 30 June 2011 and the current draft replacement MOU still does not fully address HPV's responsibilities as set out in the Act.

The department actively oversees HPV, with regular meetings to examine performance. However, the oversight is limited to the terms of the MOU and so does not adequately address how well HPV performs all its legislative functions.

The department has not effectively resolved issues with planning for hospital medical equipment asset replacement, or the lack of robust, consistent data on purchasing across the health sector. This prevents HPV, the department and the sector, from fully realising the potential of the central procurement model.

HPV does not have a comprehensive and accurate database of hospital expenditure on which to base its forward tender program. This means it cannot get reliable data on hospital expenditure by product categories and types in time to identify opportunities for future procurement. Our 2005 report found the sector was hampered by the same data deficiencies, including the lack of comparable data being further complicated by having no standard product names, descriptions and codes. To address this, HPV has been developing a Victorian Product Catalogue since 2009, in line with Victoria's commitment to the National Product Catalogue for the health sector. The Victorian Product Catalogue should address the lack of a common product catalogue when it is introduced in 2013.

Lack of information on medical equipment assets across the hospital sector and the absence of an overarching framework and rolling multi-year medical equipment replacement plan also hinders HPV from identifying, and acting on, central procurement opportunities. The department has been developing a medical equipment asset management framework to, in part, enable coordination of equipment purchases, since 2005. The framework is still in draft form although the department made tools available to the sector in 2007 to assist hospitals prioritise medical equipment replacement and develop related business cases.

Notwithstanding the absence of a statewide medical equipment asset management and replacement framework and plan, more could have been done by the department to involve HPV in procuring high volume medical equipment such as beds, ventilators, patient monitors, and high value equipment such as imaging equipment. Around \$145 million has been spent on replacing medical equipment in the past four years but there has been minimal involvement by HPV.

## Oversight of hospital procurement probity

Under the Act, HPV is responsible for ensuring the probity of public hospital procurement practices. The department, also under the Act, is charged with advising the minister on the Act's operation to assure its objectives are met. The objectives of the Act include proper use of public funds and value-for-money procurement. This gives the department a role to oversee the operation of the Act, which includes whether HPV is performing its statutory function of ensuring probity in procurement.

Neither agency is fulfilling these obligations. HPV does not assure the probity of hospital procurement, and while aware of this deficit, the department has demonstrated no action to address it. In addition, the department has not included this function in the MOU with HPV, has not responded when HPV has raised this issue, and advised against HPV's 2007 attempt to issue a probity policy for procurement in the public hospital sector.

The department does not accept that it has an oversight role in relation to health system procurement. The department argues that HPV and hospital boards are empowered to comply with the requirements of the Act and are responsible for meeting those requirements, such as assuring probity in procurement. However, the department can be active in supporting better procurement practices having regard to its role as system manager, and given its powers under the Act: including advising the minister of the Act's operation and doing 'anything else that the Secretary considers appropriate' to ensure the objectives of the Act are met.

On several occasions, the department has facilitated better procurement practice by:

- guiding hospitals on procurement and facilitating a customised probity training program for public hospital staff
- imposing requirements on hospitals for procurement as a condition of funding and requiring hospitals to certify compliance with them
- advising the Ombudsman that it will monitor hospitals' progress in implementing his recommendations on procurement practices and then requiring hospitals to report on their progress.

The department is therefore well placed to actively support HPV and health services to meet legislated requirements regarding probity in procurement.

## Hospital procurement

Procurement policies and practices in the four public hospitals audited are variable, with instances of poor practice and insufficient transparency. This requires attention because hospitals self-managed procurement accounts for around 77 per cent of the \$1.6 billion spent by the sector in 2010–11.

While the hospitals' procurement policies and procedures are broadly consistent with Victorian Government Purchasing Board guidelines and better practice there are opportunities for improvement, particularly at the two non-metropolitan hospitals examined.

Board oversight of procurement was ad hoc and typically limited to approving major decisions or responding to emerging issues.

A representative sample of over 200 procurement decisions from the four hospitals showed 38 (19 per cent) did not meet public sector standards of transparency. In these cases hospitals had failed to regularly test longstanding arrangements against the market or had not obtained sufficient quotes. While the incidence of poor procurements varied among the hospitals, the number of issues indicates that public hospital procurement practices can still improve.

The sample of procurement decisions also revealed numerous cases where hospitals had exempted themselves from going to tender or calling for multiple quotes. Although the exemptions granted were adequately justified in almost all instances, hospital management should be vigilant when granting exemptions as this practice cannot become the norm as it clouds transparency and limits the potential to gain the value-for-money that an open, competitive process offers.

Hospitals struggle to extract meaningful management information on procurement and supply activity from the HealthSMART financial and procurement computer modules. Action to correct this has been slow but is now underway.

Hospitals can improve their procurement efficiency with more active and purposeful supply chain management, including active monitoring and consolidation of suppliers and by assessing and standardising the variety of commonly bought products.

## Recommendations

Number	Recommendation	Page
1.	That the Department of Health complete and implement the medical equipment asset management framework.	20
2.	That the Department of Health resolve public hospital procurement data problems by expediting the effective implementation of the Victorian Product Catalogue.	20
3.	That the Department of Health oversee whether Health Purchasing Victoria is performing the functions assigned to it under the <i>Health Services Act 1988</i> .	20
4.	That the Department of Health review resourcing for Health Purchasing Victoria to undertake its full legislative responsibilities in partnership with them.	20
5.	That Health Purchasing Victoria aligns its plans, resources, and performance monitoring with its functions under the <i>Health Services Act 1988</i> .	20
6.	That Health Purchasing Victoria purposefully leads procurement improvement in the public hospital sector by actively fulfilling all its legislative functions.	20
7.	That Health Purchasing Victoria actively assures the probity of public hospital procurement practices.	31
8.	That public hospitals revise their procurement strategies, policies, activities and monitoring to demonstrate consistently robust and transparent procurement practices.	31

## Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Health, Health Purchasing Victoria, Melbourne Health, Peninsula Health, Latrobe Regional Hospital and Castlemaine Health with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments, however, are included in Appendix B.

# 1 Background

## 1.1 Introduction

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Victoria's public hospitals spent more than \$1.6 billion buying goods and services in 2010–11. After salaries and wages this is hospitals' second largest cost.

Procurement goes further than just buying goods and services in that it covers planning, strategic sourcing, purchasing, order management, and ongoing cost and supplier performance management. Hospital procurement should also be conducted with integrity and transparency and achieve value-for-money.

The public hospital sector uses a central procurement agency that puts contracts in place for procurement of high volume, commonly used goods and services. These contracts cover about 23 per cent of total hospital procurement. For the rest hospitals can buy locally, subject to the conditions of the central procurement contracts and policies.

An audit by this office in 2005, *Health Procurement in Victoria*, found that while central procurement had saved money for hospitals, there were opportunities for greater savings and a need for cooperation between hospitals and the central procurement agency to address data and other challenges. In 2008, the Ombudsman identified probity deficiencies in hospital procurement practices in his report *Probity controls in public hospitals for the procurement of non-clinical goods and services*.

## 1.2 Procurement principles

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In 2007, this office published *Public Sector Procurement: Turning Principles into Practice*, a guide to help agencies assess and improve their procurement. It outlined key principles for the procurement cycle. These principles align with the requirements of the financial management compliance framework that applies to public sector agencies, guidance from the Victorian Government Purchasing Board, and best practice. Figure 1A shows these principles.

**Figure 1A**  
**Procurement principles**

Principle	
Value-for-money	Achieving value-for-money is the main aim of public sector procurement. Value-for-money means optimum quality, quantity, risk management, timeliness and cost, and should be determined on a whole-of-contract and whole-of-asset-life basis.
Open and fair competition	To ensure competition is open and fair, multiple suppliers should be encouraged to bid to provide goods and services to public sector agencies or for public construction projects. Consistent with the values in the <i>Public Administration Act 2004</i> , potential bidders and tenderers must be treated fairly, consistently and even-handedly. They should all get the same information, and the procurer should respect the security and confidentiality of competitive information and documentation. When competition is open and fair, market forces are instrumental in achieving value-for-money.
Risk management	All procurement involves some risk, which must be managed, in all phases of the procurement process, and in what is being procured.
Transparency	Appropriate record keeping is important for transparency. The procurer should create and maintain supporting documentation so that decisions can be scrutinised, and to show that they followed procurement principles and complied with requirements.
Probity	Probity concerns the fairness, impartiality and integrity of the process. It is important to treat, and interact with, potential suppliers consistently to ensure probity standards are met. Probity is also critical for value-for-money. Potential suppliers may decide against tendering if they doubt the fairness or impartiality of the process. Fewer solutions are then available and the bids less competitive. It is self-evident that probity should be considered throughout all phases of procurement.
Accountability	Public sector accountability requires those using and disbursing public resources to work to clear objectives in a transparent way, accept responsibility for their decisions and actions, seek the best use of resources, and submit to appropriate scrutiny. All personnel engaged in procurement need to understand this clearly.
Ethical behaviour	The <i>Code of Conduct for Victorian Public Sector Employees</i> requires all public sector employees to model their behaviour on public sector values and to act ethically at all times. Ethical behaviour means behaving honestly and with integrity, probity, diligence, fairness, trust, respect and consistency. Ethical behaviour also means avoiding conflicts of interest and improper use of an individual's position, and is an important principle for public sector procurement.

Source: Victorian Auditor-General's Office *Public Sector Procurement: Turning Principles into Practice* (2007–08:5).



## 1.3 Roles and responsibilities

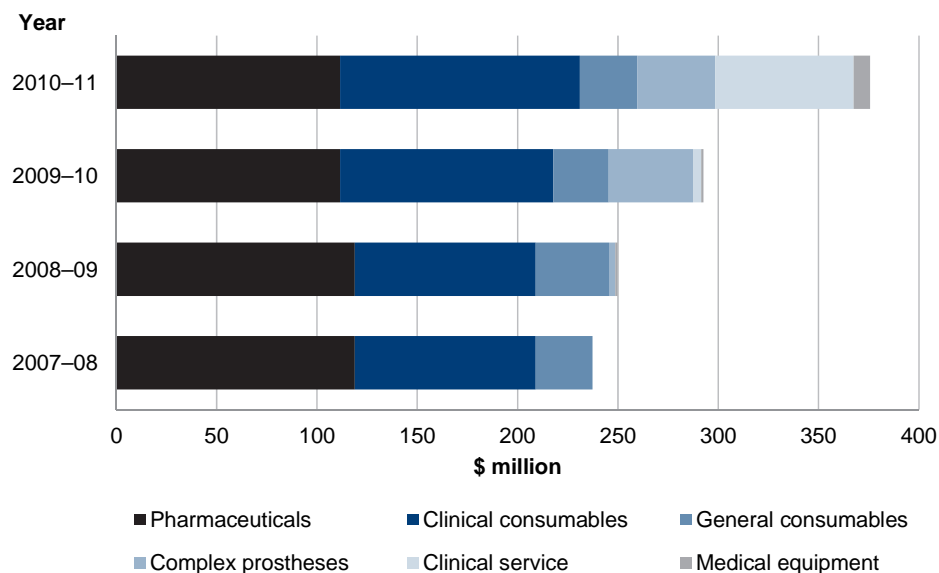
The Department of Health (the department) is the state's system manager, overseeing public hospitals and Health Purchasing Victoria (HPV).

Set up in 2001 under the *Health Services Act 1988* (the Act), HPV is the central procurement agency for public hospitals. Its aim is to save money for hospitals and create other benefits by improving collective purchasing power. HPV had contracts for around 23 per cent of public hospital procurement in 2010–11. It is also responsible for ensuring the probity of hospital procurement, improving procurement practice and monitoring compliance with its central procurement contracts.

Procurement under HPV contracts accounted for about \$376 million of the \$1.6 billion spent by public hospitals on goods and services in 2010–11. Figure 1B shows the estimated value of hospital procurement under HPV contracts over time.

Boards govern public hospitals, and the department and HPV also direct and oversee them. As a condition of funding, the department requires hospitals to meet the probity standards of the Victorian Government Purchasing Board as a minimum. Hospitals have procurement policies and also procure goods and services that are not under HPV contracts.

**Figure 1B**  
Estimated value of hospital procurement spend under Health Purchasing Victoria contract



Source: Victorian Auditor-General's Office.

## 1.4 Audit objectives and scope

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This audit examined whether procurement practices in the public health sector deliver best value, and are conducted with probity and transparency.

It covered the Department of Health, Health Purchasing Victoria and the following public hospitals:

- Melbourne Health – a large metropolitan hospital
- Peninsula Health – a medium scale metropolitan hospital
- Latrobe Regional Hospital – a regional hospital
- Castlemaine Health – a small rural hospital.

The audit examined clinical and non-clinical procurement and reviewed the implementation of past recommendations from this office and the Ombudsman.

The cost of the audit including printing was \$450 000.

## 1.5 Report structure

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Part 2 reports on HPV's performance.

Part 3 examines oversight of procurement by the public hospital sector and the procurement policies and practices at the four hospitals audited.



# 2 Performance of Health Purchasing Victoria

## At a glance

### Background

Health Purchasing Victoria (HPV) was set up in 2001 as the central procurement agency for the public hospital sector to generate savings and improve procurement. Its functions are set out in the *Health Services Act 1988* (the Act).

### Conclusion

HPV performs central procurement well, has expanded the range of products centrally procured and is making significant savings. However, it is not fully discharging its statutory functions and the Department of Health (the department) has not sufficiently supported HPV to do so. As a result, opportunities for further savings and improvements to procurement are not being realised.

### Findings

- HPV has not fully met its objectives as it does not assure the probity of hospital procurement practices and can deliver greater savings.
- HPV focuses its efforts on requirements set out in its agreement with the department, to the neglect of its other legislated functions.
- The department has not effectively addressed weaknesses with hospital equipment asset management and the lack of robust, consistent data on health sector purchasing. This limits the aims of the central procurement model.

### Recommendations

That the Department of Health:

- complete and implement the medical equipment asset management framework
- resolve public hospital procurement data problems by expediting the effective implementation of the Victorian Product Catalogue
- oversee whether HPV is performing the functions assigned to it under the *Health Services Act 1988*
- review resourcing for HPV to undertake its full legislative responsibilities in partnership with them.

That Health Purchasing Victoria:

- aligns its plans, resources, and performance monitoring with its functions under the *Health Services Act 1988*
- purposefully leads procurement improvement in the public hospital sector by actively fulfilling all its legislative functions.

## 2.1 Introduction

---

Health Purchasing Victoria (HPV) was set up in 2001 as the central procurement agency for the public hospital sector. It was expected to improve hospital system effectiveness by generating savings and improving the efficiency and probity of purchasing practices.

HPV procures collectively on behalf of hospitals for high-volume commonly used goods and services. Its contracts cover around 23 per cent of public hospital procurement expenditure. Hospitals manage the remainder and may buy locally, subject to the conditions of HPV contracts and policies.

The Department of Health (the department), as the state's system manager, has a role in supporting and overseeing HPV and hospital procurement.

A 2005 audit by this office, *Health Procurement in Victoria* found that while central procurement had saved costs for hospitals, it could produce better value. HPV also needed cooperation from the department and hospitals to address data and other challenges. The department, HPV and hospitals accepted the audit recommendations.

This Part examines the performance of HPV, whether it is complying with the *Health Services Act 1988* (the Act) and whether the department effectively supports HPV to undertake its legislated functions.

## 2.2 Conclusion

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HPV has built credibility and improved its relationship with the public hospital sector in recent years, and has more than doubled its coverage of sector spend since 2005. Its estimate that it saved \$40 million for the sector in 2010–11 is reasonable. HPV's tendering processes and practices are robust, transparent and well managed with only minor room for improvement.

However, HPV is not fully meeting its legislative responsibilities. HPV does not oversee and assure the probity of public hospital procurement practices, and could make greater savings by increasing its coverage of hospital procurement activity. The department has been aware of these gaps and opportunities and has not sufficiently supported HPV to address them.

While HPV is a statutory authority, and as such can determine its priorities and allocation of resources, in practice the department strongly influences HPV. The department's Memorandum of Understanding (MOU) with HPV, while not a statutory document, sets out HPV's funding, agreed performance indicators, and responsibilities, emphasising only a selection of HPV's legislative functions. HPV must negotiate its performance targets and funding with the department.

HPV focuses on delivering the responsibilities in the MOU for which the department holds it accountable. Monitoring and reporting of HPV performance, by the department and by HPV to the minister and the public, is primarily against the functions and indicators in the MOU. This environment lacks incentives or enablers for HPV to perform the full extent of its intended role, leading to neglect of functions like assuring probity in hospital procurement.

HPV performs well in its core role as the central procurement agency for the public hospital sector, and it saves costs. However, it could make significant additional savings by better leveraging combined purchasing power for complex medical equipment and supplies. Greater cost reductions are frustrated by the lack of an overarching framework and plan for the replacement of medical equipment in the public hospital sector, and by gaps in purchasing information. As system manager, the department can address these issues but has been slow in making real progress.

HPV began addressing some performance gaps in 2010–11 with assistance from the department. Further resolution of HPV performance issues requires ongoing partnership and coordination between the department, HPV and hospitals.

## 2.3 Health Purchasing Victoria's statutory functions and agreement with the Department of Health

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HPV's actions are guided by the Act, an MOU with the department, on behalf of the state and HPV's strategic and business plans approved by its Board. The MOU does not encourage HPV to perform all of its obligations under the Act leading to gaps in its performance.

### 2.3.1 Functions under the *Health Services Act 1988*

HPV's functions under the Act are to:

- be the central procurement agency for the sector by supplying or facilitating access to the supply of goods and services to public hospitals and other health or related services on best-value terms
- develop, implement and review policies and practices to promote best value and probity in the supply of goods and services to public hospitals, and in the management and disposal of goods
- provide advice, staff training and consultancy services to public hospitals and other health services on the supply of goods and services and the management and disposal of goods
- monitor public hospital compliance with HPV purchasing policies and directions and report irregularities to the minister
- foster improvements in hospital use of purchasing systems and trading by electronic transactions

- establish and maintain a database of public hospital purchasing data and supply markets for hospitals
- ensure that public hospitals maintain probity in purchasing, tendering and contracting activities.

HPV allocates resources primarily to its role as the central procurement agency through the annual tender program agreed with the department. While arguably the most important function, it is only one of the seven listed in the Act. It carries out its other functions partially or not at all.

### 2.3.2 Agreement with the Department of Health

The Act makes HPV accountable to the Minister for Health. The minister can give directions to HPV and can require it to prepare a strategic plan for approval. The department can only give HPV directions on employment matters.

The minister has not issued directions to HPV, has not been actively involved in approving its strategic plans and the department, as stated in the MOU, determines, in negotiation with HPV, HPV's annual budget.

The department created the MOU in October 2006 setting out its and HPV's responsibilities and terms of the agreement. Negotiated annually, the MOU schedules cover funding, performance indicators and targets, savings targets, a tender program, and other expected outcomes. There is no statutory basis for the document.

The resources, responsibilities and key performance indicators in the MOU exclude HPV's legislative functions about forming policies to promote and assure probity in hospital procurement.

The department has legal advice that the MOU need not duplicate the Act's functions because HPV must comply with its enabling Act regardless. This is correct, but the MOU emphasises some legislative functions and ignores others, with departmental monitoring of HPV reflecting these priorities.

As a result, HPV's management and governance focus on performance against the MOU. As the department's oversight is limited to the terms of the MOU it does not adequately assure how well HPV executes its legislative functions. HPV also prepares and reports internally on progress against a strategic plan and a business plan which are both influenced by the MOU.

For external accountability, HPV reports annually to the minister on its performance against just the MOU targets. Its Annual Report focuses on the MOU and strategic plan with little reference to the Act.

The initial MOU expired on 30 June 2011. The replacement draft still does not fully align HPV's funding, responsibilities and performance measures with the Act.

## HPV funding and resources

HPV negotiates its annual budget allocation directly with the department with no evidence of direct ministerial involvement.

The department has raised HPV's base annual funding from \$1.8 million in 2007–08 to \$2.3 million in 2011–12 an increase of 28 per cent over four years. It supplements the base funding each year with one-off, fixed term, project related funds.

The MOU emphasises HPV's annual tender program. HPV uses 13 of its 19 full time equivalent staff to conduct the annual tender program and related activities. Of the remaining six staff, three manage information systems and data for the tender program, and three including the chief executive carry out administrative and corporate functions. No staff are assigned to other legislative functions.

In November 2005, HPV advised the minister that the audit by this office in 2005 had clearly identified that HPV was not delivering many of its statutory functions due to its focus on core tendering and contracting activities. HPV sought review of the statutory functions or additional resources of around \$1 million per year to enable it to perform them. HPV were advised that the department was reviewing the funding submission. This review extended well into 2006. Ultimately, the additional resources requested by HPV were not provided when the MOU was established in October 2006, and the statutory functions remained unchanged. In December 2006, the HPV board reviewed its strategic plan, which it provides to the department, and again noted a disparity between its funding and the functions set for it in the Act.

The department has given HPV extra project and recurrent funding in recent years for initiatives such as:

- developing a common product catalogue for public hospitals
- tendering for complex medical items
- developing more active contract management
- integrating sustainability into tendering.

While intended to increase HPV's impact and benefits, these initiatives have not been aimed at addressing the gaps between HPV's activities and its statutory functions and are too new to evaluate for effectiveness. In 2011–12, the department will give HPV \$540 000 for three extra greenfields tenders and to supplement its budget.

## 2.4 Central procurement and savings

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HPV performs its central procurement role well. However, there is scope for greater savings. The department has forgone savings by not effectively resolving structural issues with hospital equipment asset management and replacement planning, and by HPV having little robust, consistent data on purchasing across the health sector. Together these frustrate the aims of the central procurement model.

### 2.4.1 Central procurement

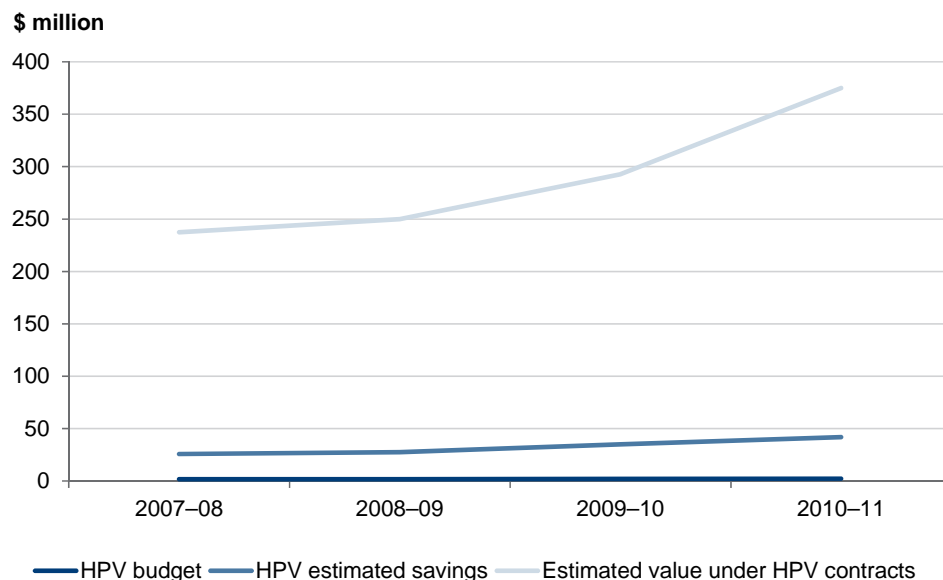
HPV’s main task is to identify tender opportunities for central procurement, coordinate and manage procurement and establish central contracts with selected suppliers that all public hospitals can access. The Act gives HPV functions and powers for this task.

HPV has met its statutory function to develop and implement a policy promoting best value in the supply of goods and services to public hospitals. It has issued a principal purchasing policy that requires hospitals to assist HPV perform its central procurement role by providing procurement data and other information to enable it to identify future tender opportunities, and to nominate staff to take part in HPV procurement processes.

The policy requires public hospitals to buy goods and/or services in HPV central contracts only under those contracts and to report to HPV that they have complied. The policy also covers exemptions from compliance with HPV contracts.

The intent of central procurement is to help the sector save money and give small hospitals the same cost benefits as larger metropolitan hospitals through high-volume purchasing. Figure 2A shows the estimated annual value of public hospital procurement under HPV contracts, the estimated cost savings, and HPV’s budget since 2007–08.

**Figure 2A**  
**Health Purchasing Victoria’s coverage of public hospital procurement spend**



Source: Victorian Auditor-General’s Office based on data from Health Purchasing Victoria.



HPV has grown its coverage of public hospital procurement spend since 2007–08, meeting the MOU target of covering around \$370 million in 2010–11. Estimated savings have also grown over the period. In 2010–11 HPV’s budget was around 6 per cent of estimated savings achieved under its contracts and these savings represented around 11 per cent of the estimated value under HPV contracts.

Appendix A lists HPV’s current contract categories and values.

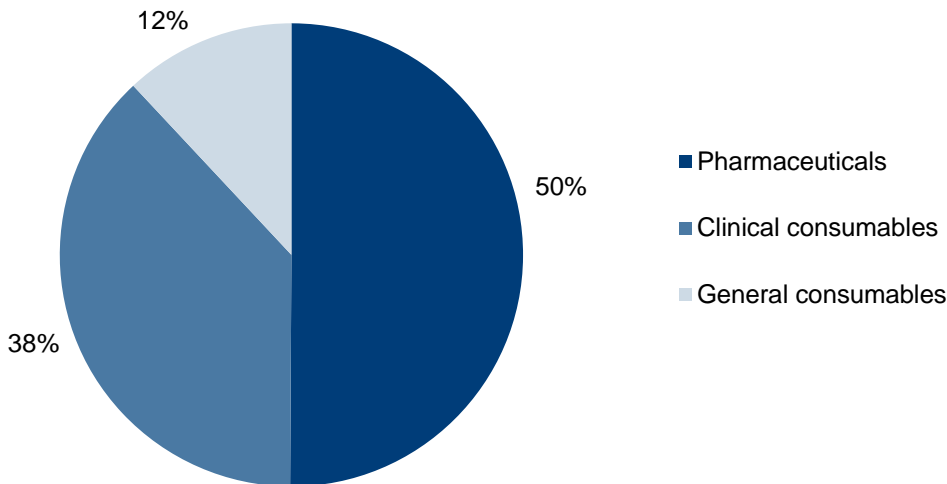
### 2.4.2 Expanding central procurement

The key savings opportunities for HPV are in expanding procurement of medical equipment and complex medical supplies and services. This was clear when HPV was created, with the then government stating, ‘the real savings would come from collective purchasing of imported hospital equipment’.

This office’s 2005 audit reinforced this opportunity, stating that goods not centrally procured and carrying large profit margins such as prostheses and medical equipment could be targeted for substantial savings.

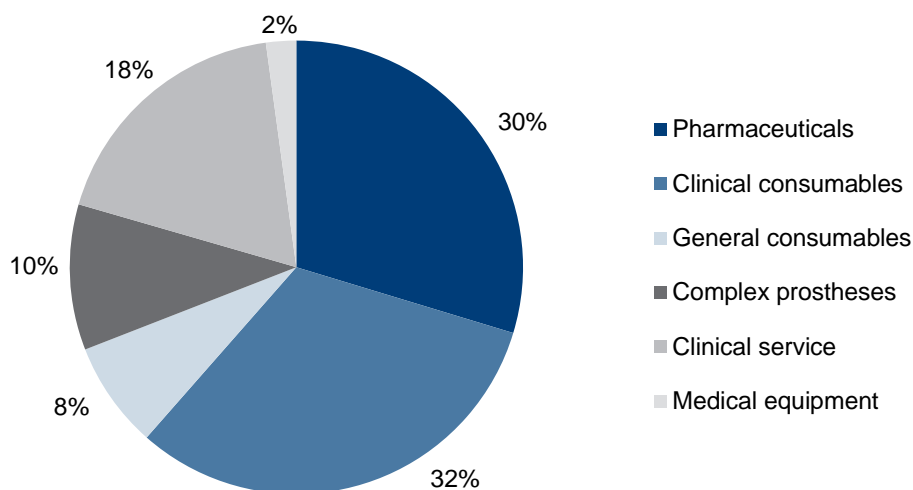
Notwithstanding the clear objective for HPV to save from central procurement of medical equipment, and complex medical supplies and services, it has made slow progress. Figures 2B and 2C show its contract mix in 2007–08 and 2010–11.

**Figure 2B**  
**Health Purchasing Victoria’s contract mix 2007–08**



Source: Victorian Auditor-General’s Office based on data from Health Purchasing Victoria.

**Figure 2C**  
**Health Purchasing Victoria's contract mix 2010–11**



Source: Victorian Auditor-General's Office based on data from Health Purchasing Victoria.

HPV has expanded its procurement beyond basic clinical consumables such as syringes, hand washing products, surgical gowns and gloves and pharmaceuticals into complex medical and surgical products, equipment and services since 2007–08. However, progress has been unsatisfactorily slow due mainly to:

- no statewide strategy and framework for acquiring and managing medical equipment
- gaps in information on equipment and other purchasing by hospitals which prevent HPV from easily reviewing reliable information on product categories and types to identify new central procurements.

As system funder and manager, the department can address these barriers to better performance but has been slow in making progress.

### Medical equipment funding and strategy

In 2003 and 2007, the department committed to work with HPV on central procurement options in response to audit recommendations that it seek more value-for-money when procuring medical equipment. These recommendations were in reports by this office, *Managing Medical Equipment in Public Hospitals*, from March 2003 and *Follow-up of Selected Audits Tabled in 2003 and 2004*, from June 2007.

Central procurement of medical equipment is challenging. Competing interests of clinical staff preferences, innovation, more specialisation and changing clinical practice influence the types of medical equipment that hospitals use. Tenders require longer lead times, more consultation and increasingly complex negotiation and management. For this reason, strong leadership and coordination by the department and HPV is necessary, particularly given the potential savings.

The department spent around \$145 million funding medical equipment replacement across public hospitals since 2007–08. Equipment funded includes commonly purchased items such as beds, ventilators, patient monitors, operating tables, x-rays and ultrasound units that would be suited to collective procurement. There has been minimal involvement by HPV in procuring this equipment.

Hospitals can also self-fund new or replacement medical equipment. The value of this is unknown as the department lacks comprehensive data on the total hospital spend on medical equipment including acquisition, servicing, maintenance and replacement.

In addition, a 2009 department review of medical equipment replacement needed in hospitals found around \$240 million of medical equipment due for replacement after 2010–11.

While there is no robust data on the savings from central rather than serial procurement of medical equipment, and supplier market dynamics and other factors influence savings, potential savings scenarios can be considered. If central procurement had saved 2 per cent this would be \$2.9 million over the past four years. If HPV met the MOU savings benchmark of 10 per cent for general purchasing, savings would be around \$14 million.

There is currently no overarching framework or rolling multi-year medical equipment replacement plan. This hinders central procurement of medical equipment as funding is allocated yearly in response to bids from hospitals rather than against a planned replacement program. A multi-year program would improve the chances for coordinated central procurement of equivalent items across hospitals. Currently, multiple hospitals may run separate procurement processes for equipment such as beds in the same year.

The department has been developing a medical equipment asset management framework, in part to enable better coordination of equipment purchases, since 2005. The department planned to roll it out by December 2007 but now expects to publish it by the end of 2011 and fully implement it in two years. Progress to date has included the department's development and release to the sector in 2007 of tools to assist hospitals prioritise medical equipment replacement and develop related business cases.

Notwithstanding the absence of a medical equipment asset management framework and replacement plan, the department should have done more to involve HPV in procuring high-volume medical equipment such as beds, ventilators, patient monitors and high-value equipment such as imaging equipment.

Despite the lack of significant progress, HPV has made some advances. In February 2011, HPV released a non-mandatory central contract for infusion pumps for a total expected annual spend of around \$5 million. HPV made the contract for four hospitals funded under the department's targeted equipment program in 2010–11. The department has also recently engaged with HPV to start working towards central procurement of common hospital equipment items such as beds.

### 2.4.3 Savings under existing Health Purchasing Victoria contracts

HPV does not track actual savings made by hospitals under its contracts due to deficiencies and gaps in its data and systems. The calculations would require time consuming manual cleansing and analysis of actual sales data from suppliers.

HPV therefore estimates the potential savings at the start of each contract using a sound methodology. In 2010–11, HPV estimated savings of around \$40 million.

The only shortcoming with HPV's saving estimation methodology is that when calculating savings, HPV counts a full-year effect for contracts regardless of when they actually start. This is disclosed when HPV communicates savings to stakeholders but HPV should calculate savings estimates on a pro-rata basis for contracts starting part way through a year.

#### Sharing savings opportunities with hospitals

HPV can improve how it shares saving opportunities with public hospitals. Its contracts give hospitals a panel of suppliers to choose from whose prices for equivalent items vary. Hospitals tend to continue buying from the same supplier, but if HPV were to show hospitals that they could switch to a lower cost approved supplier, they would save more.

From late 2010 HPV began giving large metropolitan hospitals targeted information on savings available if they switched to the lowest cost equivalent product. HPV data, system and resource constraints mean it is not sharing this information with other hospitals. To address this gap HPV is committed to allocating resources to enable more active contract management to help all hospitals identify and make savings under existing contracts.

#### Benchmarking

HPV's MOU requires it to benchmark for price and product. However, it has done only limited benchmarking over the past 10 years.

In 2010, the Australian National Healthcare Benchmark Program benchmarked HPV for procurement of pharmaceuticals against ACT Health, NSW Health, Queensland Health and SA Health. The results, released in September 2010, largely favoured HPV:

- it ranked highest for procurement function benchmarking, covering organisation and role, capability, policy, process and performance measurement
- it ranked second highest for savings opportunity against average prices
- its pricing was shown on average to be 1.7 per cent lower than other jurisdictions.

However, analysis of line items identified potential savings of around \$4.5 million a year if HPV could match the lowest prices on items for which it did not have the lowest price nationally. It plans to act on this opportunity when retendering for pharmaceuticals in 2012. The draft MOU for 2011–12 requires it to benchmark prices for pharmaceuticals and orthopaedic prostheses.

### Future savings opportunities

HPV can save hospitals more through:

- greenfield tenders, as retenders typically occur in a mature market where initial savings from collective procurement have been realised
- tenders of medical equipment and complex medical supplies and services
- more active contract management and information sharing on savings opportunities.

Advice from the department to the Minister of Health in mid-2011 indicated possible savings opportunities of about \$57 million a year from joint procurement and cooperation with another jurisdiction. HPV is exploring this.

## 2.5 Monitoring probity of hospital procurement

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HPV does not assure the probity of public hospital procurement practices. This function was emphasised by the government in 2001 when it introduced the legislation to set up HPV and requires attention given that hospitals self-managed procurement for around 77 per cent of the \$1.6 billion spent by the sector in 2010–11.

HPV's MOU includes no requirement or performance indicator for this role. HPV's current strategic and business plans also omit this function. It does not assure that the public hospital sector maintains probity in purchasing, tendering and contracting. To meet its statutory obligations, HPV would have to set a probity policy for hospital procurement and set up an assurance process to determine if its requirements are met.

As part of its funding conditions, the department requires public hospitals to adopt and meet probity standards at least as high as those required by the Victorian Government Purchasing Board (VGPB), but neither HPV or the department enforce or monitor this.

### 2.5.1 Setting policy

HPV has not performed its statutory function to develop, implement and review policies and practices to promote probity in the supply of goods and services to public hospitals.

HPV has not issued a policy promoting probity in public hospital procurement. It tried to issue a probity policy in 2007 but stopped when the department advised against it. The department was concerned that HPV's proposed probity policy would duplicate the VGPB policy and guidelines. HPV has not revived the proposal and the department's funding conditions for public hospitals require them to adopt the probity standards of VGPB guidelines as a minimum.

While this material is appropriate it could be supplemented with model procurement policies and other guidance tailored for hospitals. This audit has shown that smaller hospitals would benefit from such guidance.

## 2.6 Monitoring compliance

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Compliance with central procurement contracts is mandatory for public hospitals unless HPV grants an exemption. The Act requires HPV to monitor compliance by public hospitals and to report irregularities to the minister.

HPV does not gain adequate assurance about public hospital compliance with its contracts. It began addressing this during 2010–11 in consultation with the department. The action taken should lead to greater assurance from 2011–12 on.

### 2.6.1 Annual compliance statements by hospitals

HPV requires public hospital chief executives to certify annually that they have audited compliance with HPV contracts, and describe the level of compliance. HPV accepts the assertions provided by hospitals and does not test or audit their compliance. It relies on networking and supplier complaints to identify potential non-compliance.

The four hospitals examined in the audit had certified their compliance in the annual HPV contract compliance audit statements for 2009–10 but none had actually validated their compliance to substantiate the statements.

During the audit, HPV amended the annual contract compliance audit statement for 2010–11 to require hospitals to describe how they assure compliance.

After consulting with HPV, the department added to the *Conditions of Funding for Health Services* in 2011–12 requiring them to periodically review compliance with HPV contracts using an appropriate compliance monitoring strategy, such as an internal audit program. In future the hospital chief executive must report the review results to the board and HPV. The health service must also report to HPV that it has done an assurance process and copy the relevant reviews to HPV.

## 2.6.2 Use of hospital purchasing data for monitoring compliance

HPV has not used available data on hospital purchasing to systematically monitor compliance with its contracts. It gets quarterly sales data for individual hospitals from its suppliers and could, but does not, routinely analyse and track it over time to identify unusual patterns or other indicators of possible non-compliance. It has also not analysed the spending patterns of hospitals denied an exemption from an HPV contract to ascertain whether they are compliant.

HPV did its first compliance review on a public hospital in late 2010 as the result of a complaint rather than a planned program. The review:

- identified non-compliance with an HPV contract
- referred to an agreement in April 2010 between the hospital and one supplier listed in the HPV contract that altered the hospital's spending pattern to almost exclusive spending on products from that supplier
- highlighted that HPV guidelines for seeking exemptions for clinical trials and evaluations were neither clear nor adequate
- identified that HPV was doing limited monitoring of compliance with its contracts.

In July 2011, HPV engaged external help to systematically analyse sales data for compliance under three of its contracts.

In addition, during 2011 it started listing suppliers and products from previous HPV contracts that were unsuccessful in the new contract, to help hospitals identify the need to change supplier and/or products to comply.

## 2.7 Building sector capacity

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HPV has a statutory function to provide advice, staff training and consultancy services to public hospitals on the supply of goods and services and the management and disposal of goods. HPV has not effectively discharged this role in its 10 years of operation. It has started to address this over the past two years.

HPV's limited action to support and educate hospitals has been to:

- advise public hospitals on probity and other procurement related matters informally in response to queries
- organise annual Strategic Procurement Forums for procurement and supply staff in hospitals in the past two years
- develop and be accredited for coordinating a 12-month training program for hospital procurement and supply staff which will lead to a qualification recognised by the Chartered Institute of Purchasing and Supply. This training started in September 2011 with 12 participants.

Given the diversity of approaches and resources devoted to procurement and supply chain management across the sector there is significant scope for HPV to be the catalyst for better understanding and practice. It is not clear that this is achievable given HPV's current resources.

## 2.8 Sharing data and supporting e-commerce

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HPV has not effectively discharged its statutory functions to facilitate increased use of trading by electronic transactions by hospitals and to maintain a database of purchasing data for access by public hospitals.

The Act requires HPV to establish and maintain a database of public hospital purchasing data and supply markets for public hospitals to use. However a database is at least two years away. HPV relies on suppliers for sales data on its contracts. It struggles to get robust, consistent and comparable data from the sector to help identify future tender opportunities and plan for tenders on its annual program.

This problem largely stems from lack of a common product catalogue across the public hospital sector. Hospitals maintain separate catalogues and identify the same products in different ways making it very difficult for HPV to get reliable data on how much the sector is spending in each product category. The lack of comparable data and standard names and codes for products were identified as issues in our 2005 report.

HPV has been developing a Victorian Product Catalogue (VPC) since 2009, in line with Victoria's commitment to the National Product Catalogue (NPC) for the health sector. The NPC is an initiative of the National E-Health Transition Authority. It intends to establish a 'single source' of product item master data for public health institutions buying medicines, medical devices and other items.

The VPC will help improve HPV's tendering process and help it develop the purchasing database. The department gave HPV 'in principle' approval in mid-2011 for funding to develop the VPC. The latest advice from HPV to the department indicates that:

- the VPC will synchronise data between the NPC and the various systems for managing catalogues, setting common, accurate product and pricing data, reducing catalogue management effort in health services and enabling broader supply chain reform and quality improvements
- full implementation of the VPC across the health services could occur by December 2013 and deliver savings of around \$2.9 million per year
- initial software development and implementation is estimated at \$600 000, with \$100 000 a year in licence fees. Staffing costs for implementation and ongoing management are estimated at \$600 000 in year one, rising to \$950 000 per year from year three onwards. HPV is working with health services to specify requirements for interfaces between VPC and the various catalogue systems they use. Additional costs for such interfaces are not yet quantifiable.



The VPC and the sales database are critical for HPV's capacity to implement many of the recommendations from our 2005 audit. Both projects started in early 2009 and need to finish as soon as possible.

## 2.9 Health Purchasing Victoria's procurement policies and practices

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The policies governing HPV's tendering and procurement activities are sound and its tendering processes and practices are robust, transparent and well managed.

HPV procurement procedures support its tendering and contract system and have been appropriately authorised. Its policy calls for annual review of procurement procedure documents but HPV has not consistently done this for all the documents. While this has not caused adverse consequences, HPV should review procedures annually to assure they are still current and appropriate.

HPV's procurement policies and procedures compare well with VGPB policies and better practice. Despite this, it can still improve:

- it has used the same probity advisor and auditor exclusively for several years and needs to rotate this function among other probity practitioners on the government probity panel every five years to maintain independence
- it has an appropriate policy on gifts, benefits and hospitality. However, the policy is not well implemented. It would also be prudent to regularly inform tenderers and contractors about the policy.

Examination of a sample of tenders over the past 18 months showed they conform to HPV's approved procurement policies and procedures, and VGPB guidelines. Tender management met the audit criteria with some minor exceptions that did not compromise the integrity of any tenders.

## 2.10 Communication and partnership with the sector

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HPV's relationships with health sector stakeholders, particularly public hospitals, are important to its effectiveness. This office's 2005 audit identified that HPV needed to improve its relationships with hospitals and the department.

The 2005 audit found that hospitals were generally critical of HPV communications. HPV has since made considerable effort to build a more open and partnership based relationship with the sector. The results of client survey work and feedback from hospitals during this audit support this.

'Optimising relationships' features prominently in HPV's strategic and business plans and its MOU includes communication with hospitals. HPV has adequate strategies to build relationships with key players in the health sector, including hospitals outside the metropolitan area. The process for consulting the sector and the department when setting its forward tender program is sound.

In 2007 and 2009, HPV engaged a contractor to survey the views of its major stakeholders and will repeat the survey this year. It has followed up on survey recommendations.

Given that hospitals manage about 77 per cent of public health sector procurement, an important question was whether HPV's interactions with them have had a significant impact on their own procurement practices. Two particular areas in HPV's 2009–10 and 2010–11 business plans that could have contributed were supply chain improvement and development of data systems. However this audit found that HPV's efforts have not been enough to improve hospitals' self-managed procurement practices.

## Recommendations

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That the Department of Health:

1. complete and implement the medical equipment asset management framework
2. resolve public hospital procurement data problems by expediting the effective implementation of the Victorian product catalogue
3. oversee whether Health Purchasing Victoria is performing the functions assigned to it under the *Health Services Act 1988*
4. review resourcing for Health Purchasing Victoria to undertake its full legislative responsibilities in partnership with them.

That Health Purchasing Victoria:

5. aligns its plans, resources, and performance monitoring with its functions under the *Health Services Act 1988*
  6. purposefully leads improvements in public hospital sector procurement by actively fulfilling all its legislative functions.
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# 3 Hospital procurement practices

## At a glance

### Background

Public hospitals bought more than \$1.6 billion of goods and services during 2010–11. Such significant outlays of public funds warrant procurement activity marked by integrity, transparency and value-for-money.

### Conclusion

Assurance is not available on the adequacy of public hospital procurement because Health Purchasing Victoria (HPV) does not assure probity and so the Department of Health lacks information necessary to understand whether the sector's procurement practices are properly conducted. This lack of assurance exposes the state to the risk of improper procurement. While no impropriety was found in this audit almost one in five of the hospital procurement processes reviewed had weaknesses in transparency and decision-making.

### Findings

- The Department of Health has a clear mandate to oversee the operation of the *Health Services Act 1988* including provisions requiring oversight of public hospital procurement practices by HPV, however, it has done nothing to address the fact that HPV fail to perform this function.
- Procurement policies and practices in the four public hospitals audited are variable, with instances of poor practice and transparency in quotations, and a failure to regularly market test longstanding arrangements.
- Hospitals face difficulties extracting meaningful management information from the finance and procurement systems of HealthSMART. This compromises their effective oversight and management of procurement performance. Action to resolve this has been slow but is now under way.

### Recommendations

- That Health Purchasing Victoria actively assures the probity of public hospital procurement practices.
- That public hospitals revise their procurement strategies, policies, activities and monitoring to demonstrate consistently robust and transparent procurement practices.

## 3.1 Introduction

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Victoria's public hospitals bought more than \$1.6 billion of goods and services during 2010–11. This is the second largest cost for hospitals after salaries and wages and accounts for almost 15 per cent of their spending.

Such significant outlays of public funds warrant procurement activity characterised by integrity, transparency and value-for-money. Responsibility for this rests primarily with public hospital boards and management.

The Department of Health (the department), as state system manager, is responsible for effective central oversight of public hospital procurement activity.

This Part examines how effectively the department oversees public hospital procurement and assesses the procurement policies and practices of four public hospitals. The hospitals were a cross-section of metropolitan and regional hospitals with varying scales of procurement activity and support functions.

## 3.2 Conclusion

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There is a lack of assurance on the adequacy of public hospital procurement because Health Purchasing Victoria (HPV) does not perform this role. This means the department lacks information necessary to understand whether the sector's procurement practices are properly conducted. Given the probity assurance function assigned to HPV by the *Health Services Act 1988* (the Act) and the large annual procurement spend by hospitals, this is a significant shortcoming. While not found in this audit, lack of assurance processes expose the sector, and thus the state, to the risk of improper procurement and the attendant risk of poor value-for-money.

Procurement policies and practices in the four public hospitals are variable, with instances of poor practice and insufficient transparency. Almost one in five of the procurement processes reviewed had weaknesses, highlighting the need for better oversight.

Hospitals can improve their procurement and supply chain management by implementing procurement strategies, improving management information and board oversight, and seeking efficiencies through better supply chain management, including active monitoring and consolidation of suppliers. The two metropolitan hospitals were far more advanced in these areas than the regional hospitals.

Variability in the effectiveness of procurement and supply chain management across hospitals points to a need for better leadership and guidance from the department and HPV.

### 3.3 Oversight of public hospital procurement

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The value and importance of public hospital procurement activity warrant effective central oversight.

The department's oversight of the system is not effective because it is aware of, but has not acted on, the failure of HPV to ensure the probity of public hospital procurement. Section 131 of the Act establishes this HPV function.

The Act gives the department a clear mandate to oversee its operation. This encompasses the performance of HPV in carrying out its statutory functions which include assuring the probity of public hospital procurement practices and performance.

The Act also:

- includes objectives requiring public hospitals to be governed and managed effectively, efficiently and economically, public funds to be used effectively, and purchasing arrangements and supply chain management in public hospitals to give value-for-money
- assigns, as a principal function of the secretary of the department, the role of advising the minister on the operation of the Act and empowers the secretary to direct, monitor, evaluate and review publicly funded health services. The monitoring and review powers extend from collecting and analysing data to commissioning audits of public hospitals to determine whether they are using public funds effectively.

Notwithstanding these provisions and its role as the state's system manager, the department does not accept that it has an oversight role in relation to health system procurement. The department argues that HPV and hospital boards are empowered to comply with the requirements of the Act and are responsible for meeting those requirements, such as assuring probity in procurement.

While it is appropriate that the department not impose on the management role of hospitals, it does have a responsibility to understand the performance of hospitals in undertaking their management duties, including procurement. At present, the department has no way of knowing if hospital procurement practices are appropriate, as neither HPV nor the department undertake this function.

The priorities and performance measures agreed by the department with HPV do not cover HPV's statutory function to ensure the probity of public hospital procurement practices. The department is aware that HPV does not perform this function, and further, it advised against HPV's attempt in 2007 to issue a probity policy to public hospitals.

The department does not monitor whether individual hospital board oversight is adequate. It requires hospitals to attest they have complied with its funding conditions and to their progress on the 2008 Ombudsman recommendations, but does not test, validate or otherwise check on their accuracy, either directly or through HPV.

As the department offers only limited guidance and direction to the public hospital sector, there is scope for it to guide and monitor procurement practices more actively, either directly, through, or in partnership with HPV. This could form the basis for system-wide assurance without undermining the governance responsibilities of individual public hospital boards. The department can be active in supporting better procurement practices – as system manager, and given the powers of the department under the Act that include doing ‘anything else that the secretary considers appropriate’ to ensure the objectives of the Act are met. The department has demonstrated its ability and willingness to facilitate better procurement practice numerous times including:

- guiding hospitals on procurement and facilitating a customised probity training program for public hospital staff
- imposing procurement-related requirements in its conditions of funding for hospitals and requiring them to certify compliance
- advising the Ombudsman that it will monitor hospital progress in implementing his recommendations on procurement practices, then requiring hospitals to report on progress.

## 3.4 Public hospital policies and practices

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While the department is responsible for centrally overseeing hospital procurement practices, the Act gives hospital boards the main responsibility for overseeing and managing hospital operations including procurement.

Effective procurement takes sound governance and oversight, comprehensive policies and procedures, and appropriate management and follows the principles of:

- value-for-money
- open and fair competition
- risk management
- probity and transparency
- accountability.

Procurement policies and practices in the four hospitals audited varied in adequacy, with instances of poor practice and insufficient transparency.

### 3.4.1 Procurement strategies

This office’s 2005 audit recommended that hospitals develop procurement and supply management strategies based on an understanding of barriers and opportunities and identifying saving initiatives and targets. Victorian Government Purchasing Board (VGPB) and other better practice guidance indicate hospitals need an overarching procurement strategy in addition to any strategy or plan for a particular high-risk or high-value procurement.

Such an overarching strategy would go beyond the process, probity and transparency issues covered in policy and procedure to specify procurement and contract management strategies. It could cover:

- strategic contracting based on detailed knowledge of the market, and the category sought, to obtain optimal solutions
- active contract management to realise benefits and spur continuous improvement
- improving the efficiency of the supply function which involves ordering and receiving products from suppliers, distributing them to users across the hospital and managing stock levels
- evaluating and standardising commonly purchased products to leverage buying power
- aggregating purchasing power with other organisations to maximise savings.

A procurement strategy could help hospital boards purposefully guide and monitor management performance beyond merely adhering to the 'rules of procurement' to getting better savings and efficiency gains from their procurement activity.

The four hospitals examined all had senior staff who could clearly articulate their hospital's vision and objectives for procurement. Only Peninsula Health had a consolidated overarching strategy, and this would benefit from more development. The other hospitals need to develop an overarching procurement strategy from various internal documents such as their strategic and business plans.

### 3.4.2 Procurement policies

Comprehensive procurement policies set the framework and expectations for open, ethical and transparent procurement and enable boards and management to tell staff their responsibilities and what is expected of them.

Public hospitals are subject to the financial management compliance framework of the *Financial Management Act 1994*. It requires public sector agencies to internally control procurement activities effectively so that they purchase goods and services according to business need and in line with policies and procedures that are based on sound procurement principles including value for money, competition and transparency.

The department requires public hospitals to adopt, as a minimum, the probity standards in VGPB policy and guidelines, which relate to procurement thresholds.

While the procurement policy and procedures of the four hospitals were broadly consistent with VGPB policy and guidelines, and better practice they could improve. This was particularly true at the two non-metropolitan hospitals.

Castlemaine Health's procurement policy is spread across multiple documents, is incomplete, and has not been regularly reviewed. It needs to revise its policy and procedures to clarify the thresholds for multiple quotations and guide staff on how to comply with VGPB guidance and the financial management compliance framework.

Latrobe Regional Hospital's procurement policy could guide staff better on procurement processes and controls. The tendering policy needs updating to set clear requirements and controls for using agents to run tender processes.

Three of the four hospitals could demonstrate effective procedures to inform and remind staff of procurement policies and practices, however Castlemaine Health did not regularly communicate with staff on procurement.

### Policies on gifts from suppliers and potential suppliers

All four hospitals have policies on gifts, hospitality and other benefits from current and potential suppliers that apply to all hospital staff including contracted medical officers.

Castlemaine Health did not have a gifts policy until July 2011 despite giving the department an undertaking that it would have one by March 2010.

The gifts policies align with guidance and requirements for the Victorian public sector namely the *Gifts, Benefits and Hospitality Policy Framework* issued by the Public Sector Standards Commissioner in March 2010.

All policies set a nominal value above which offers of gifts must be reported. Three of the hospitals have a threshold of \$50 for registering and reporting gift offers. Melbourne Health has a threshold of \$150, which is the upper limit of the framework's 'nominal value'. The Ombudsman recommended in 2008 that the department require hospitals to review the threshold and consider an upper limit of \$50.

All hospitals maintained gift registers. Entries in the gift registers were for gifts offered to senior management with no entries for medical officers. However, it is not unusual for medical officers to be offered gifts, hospitality, and sponsored professional development opportunities. Hospitals should remind medical officers of their responsibility to comply with the gifts policy.

Castlemaine Health had no entries in its register as it has only just written a gifts policy.

### 3.4.3 Reporting and oversight of procurement

Board and senior management oversight of procurement activity and performance is important to show they are committed to effective management and continuous improvement.

Board oversight in the four hospitals was mainly ad hoc, usually to approve major procurement decisions or respond to emerging issues. Only Peninsula Health had reported more strategically to the board on procurement during 2010–11.

Senior management in all hospitals oversaw procurement and supply activity but did better in the two metropolitan hospitals, which regularly reported on activity and savings. An HPV survey in March 2011 showed that only half of hospital supply departments were regularly reporting on savings.



This lack of regular, comprehensive reporting is attributable at least in part to hospitals struggling to extract meaningful procurement and supply information from the HealthSMART financial and procurement modules.

Many hospitals do not have the expertise to get relevant information from HealthSMART, an issue they have raised consistently over recent years. The Department's HealthSMART unit eventually allocated resources in mid-2011 to give hospitals better reporting capability.

Melbourne Health employed a specialist staff member to develop useful management reporting and has shared example reports with other hospitals.

### 3.4.4 Adequacy of procurement practices

The audit reviewed over 200 procurement decisions from the four hospitals with a total value of around \$35 million, representing about 10 per cent of the combined procurement spend of the hospitals for 2010–11.

The purchases examined included routine high-volume, low-value items, higher-value items and services and tenders for high-value goods, equipment and capital works. The sample covered procurement by hospital operational areas including clinical units, engineering, catering and administration.

Of the sample, 38 (19 per cent) did not adhere to public sector standards of transparency in procurement decision-making. Some had failed to obtain sufficient quotes and others had not regularly market tested long-standing arrangements. While the incidence was not uniform across the hospitals, its extent indicates there is significant scope for improvement in public hospital procurement.

The sample also disclosed numerous instances of hospitals exempting themselves from the need to tender or call for multiple quotes. This practice cannot become the norm as it clouds transparency and prevents hospitals from getting the same value-for-money as from an open, competitive process.

The need for haste due to poor planning is not a good enough reason to forego a transparent procurement process. While tendering can be time consuming it is preferable to single source procurement in that it is transparent and offers value-for-money.

#### Routine procurement and tendering

Routine hospital procurement is generally well controlled, transparent and robust in its consistency with hospital requirements, VGPB guidelines and better practice.

Notwithstanding this, 19 per cent of procurement samples were not sufficiently transparent.

Figure 3A shows the results of procurement testing in the hospitals.

**Figure 3A**  
**Results of hospital procurement testing**

Procurements tested	Value of procurements tested (\$'000s)	Findings
<b>Castlemaine Health</b>		
15	867	Ten exceptions (67 per cent). Most due to insufficient quotes. Others due to failure to regularly market test long-standing arrangements in food and environmental services.
<b>Latrobe Regional Hospital</b>		
32	18 801	Twelve exceptions (37 per cent). Most due to insufficient quotes. Many related to failure to regularly market test long-standing arrangements for imaging, vehicle leasing, waste management, stationery, and staff and visitor accommodation.
<b>Melbourne Health</b>		
96	4 136	Two exceptions (2 per cent) relating to capital works procurement and failure to get sufficient quotes.
<b>Peninsula Health</b>		
59	10 970	Fourteen exceptions (23 per cent). Most due to insufficient quotes in engineering procurement. In one case, there was no tender for a project worth over \$800 000. The procurement policy requires tenders to be called when the value exceeds \$150 000.
<b>Total</b>	<b>202</b>	<b>34 774</b>
		<b>38 exceptions</b>

Source: Victorian Auditor-General's Office.

The Ombudsman reported in mid June 2011 on corrupt conduct by public officers in procuring printer cartridges. There was no evidence of payments to any of the company trading names used by the organisation involved in the Ombudsman's investigation in payment listings from the four hospitals.

### Tendering practices

With some exceptions sample tender processes from each hospital generally conformed to approved policies and better practice.

Latrobe Regional Hospital exposed itself to undue risk by engaging agents to conduct tender processes on its behalf, but not requiring them to conform to its tendering policy. Further, it did not require the agents to complete conflict of interest declarations. Given the lack of records there is no assurance that they complied with the tender policy. For example, there was a lack of clarity over tender receipt and opening processes. In one process, the agent opened tenders progressively instead of after the tender closing time thus risking the tender's integrity.

Castlemaine Health's deficient record keeping for tender and major request for quote processes meant it could not produce comprehensive documentation of evaluation processes.

### Contract registers

The department requires public hospitals to maintain contract registers. The hospitals had contract registers but none listed all hospital contracts. Typically engineering department contracts were excluded. The four hospitals are now rectifying this.

### 3.4.5 Procurement of external contractors by engineering departments

In 2008, the Ombudsman reported on numerous deficiencies in the probity controls of public hospitals for the procurement of non-clinical goods and services, specifically in hospital engineering departments.

While engineering department procurement of external contractors in the four hospitals has improved since the Ombudsman's findings it could be more transparent and could do better still.

The engineering departments were generally more transparent in selecting and allocating work to preferred trade contractors. Melbourne Health has the best means of ensuring fairness and transparency in using trade contractor panels.

However, the engineering departments at Melbourne Health, Peninsula Health and Castlemaine Health need to stop rolling over agreements for facilities maintenance with long-standing contractors and regularly test the market. Figure 3B gives two case studies. Latrobe Regional Hospital contracts out its facilities maintenance function to a single contractor and regularly tenders this contract.

**Figure 3B**  
**Hospital engineering department contracts case studies**

<p><b>Melbourne Health</b></p> <p>Melbourne Health has 38 contracts for planned preventative maintenance worth over \$2 million a year. The contracts were awarded from an open tender and started in 2002 for an initial term of three years with an option for a three-year extension. The contracts were not market tested at expiry in 2008 and have been rolled over annually since then. Melbourne Health advised it intends to tender for them in the near future.</p> <p><b>Peninsula Health</b></p> <p>Peninsula Health has two agreements with one company for gardening and general grounds maintenance. One signed in August 2002 covers three Peninsula Health sites, and the other from April 2003 covers 10 sites including Frankston Hospital. Both were for an initial term of three years with an option for a further two years. Peninsula Health advised that both agreements are rolled over month to month. Payments to the company exceeded \$1.2 million in total over the past six financial years. These maintenance services should have been tendered during 2007–08.</p>
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Source: Victorian Auditor-General's Office.

### 3.4.6 Delivering savings

The hospitals had mixed performance in setting and monitoring savings targets for HPV and their own procurement. Only Melbourne Health and Peninsula Health regularly monitor and report on savings.

HPV contracts list a panel of suppliers that charge different prices for equivalent items. Health services thus need to analyse HPV contract panel offerings at the start of a new contract to find the best prices.

There was mixed performance in analysing new HPV contracts promptly and thoroughly. The typical method was to check whether the hospital's current suppliers were listed on the new contracts and, if so, to continue with them.

Notwithstanding this, each hospital had at least one example of analysing a new HPV contract. Only Melbourne Health and Peninsula Health could demonstrate a regular, systematic approach to analysing new HPV contracts for potential savings. Both have better resourced supply departments in line with their larger size.

### 3.4.7 Procurement and supply chain improvement

Hospitals can improve the efficiency of their procurement through purposeful supply chain management.

A supply chain covers the facilities, people, processes and technology that source and distribute products to users. Private industry seeks efficiencies from better management of procurement, inventory, production, and distribution.

Effective supply chain management relies on having meaningful management information and using it. The two metropolitan hospitals were far more advanced in this than the regional hospitals.

The scale of supply chain management initiatives varied across the four hospitals, reflecting the volume of procurement and the maturity of their systems. The two metropolitan hospitals focused strongly on improvements but this was less evident at the two regional hospitals.

Initiatives at the two metropolitan hospitals included:

- automating the ordering and replenishing of stores of high use stocked items held in clinical units
- active identification, monitoring and consolidation of top suppliers
- assessing and standardising commonly purchased products to improve controls over the range of products purchased and to save money
- improving inventory and supply management at the supply department central store and stocks of products held in clinical units across the hospital.

## 3.5 Hospital compliance with Health Purchasing Victoria contracts

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Compliance with HPV central procurement contracts is mandatory for public hospitals unless they get an exemption or the HPV contract is voluntary.

Hospitals are required to certify to HPV annually that they have audited compliance with the contracts. However, they do not audit compliance, relying instead on relevant staff to comply without testing it. As a result, the current hospital certificates do not assure compliance.

All the hospitals examined asserted compliance with HPV contracts, apart from minor disclosed exemptions or partial exemptions. A small sample of items tested from three HPV contracts did not find any non-compliance.

Latrobe Regional Hospital was granted an exemption from the HPV catering contract in 2009 based on the impact on Gippsland suppliers. The basis for the exemption application was incorrect, as it had tendered for catering supplies but of the 11 recommended contracts, it had awarded only three to local companies. Latrobe Regional Hospital has advised that it made a mistake when completing the exemption application form.

### Recommendations

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7. That Health Purchasing Victoria actively assures the probity of public hospital procurement practices.
  8. That hospitals revise their procurement strategies, policies, activities and monitoring to demonstrate consistently robust and transparent procurement practices.
-



# Appendix A.

## Health Purchasing Victoria contracts

**Figure A1**  
**Health Purchasing Victoria contracts at July 2011**

Contract name	Estimated annual value (\$mil)	Start date	Expiry date
Catering Supplies	14.00	01 Dec 09	30 Nov 12
Continence Management Products	8.80	14 Apr 11	13 Apr 16
Contrast Media and Radiopharmaceuticals	5.50	22 Sep 09	21 Sep 13
Drapes and Clinical Protective Apparel	6.50	29 May 10	28 May 13
Enteral Feeds	5.70	01 Mar 11	28 Feb 14
Examination and Surgical Gloves	5.20	05 May 08	04 May 12
Hand Hygiene and Domestic Paper Products	6.40	04 Dec 10	03 Dec 13
Hypodermic Needles and Syringes and Oral Dispensers	3.90	01 Jul 10	31 Jun 13
Infusion Pumps	8.10	14 Feb 11	13 Feb 15
Interventional Cardiology	23.00	24 Nov 09	23 May 12
IV Administration Sets	12.00	03 Oct 09	02 Oct 13
IV and Dialysis Fluids	15.00	01 Nov 08	31 Oct 12
Medical and Industrial Gases	5.60	08 Dec 08	07 Dec 12
Monitoring Products	7.00	07 Jun 11	06 Jun 14
Nurse Agency Services	65.00	24 Feb 11	23 Feb 14
Office Requisites	8.20	01 Jun 09	31 May 12
Operating Room Consumables	6.00	04 Apr 11	03 Apr 12
Operating Room Consumables – Wound Drainage	1.93	27 Aug 07	03 Apr 12
Pharmaceutical Products	106.00	01 Apr 10	31 Mar 12
Pathology Consumables	4.30	01 May 09	30 Apr 12
Pathology Services (Gippsland Region)	4.00	01 Jul 10	30 Jun 15
Respiratory Products	8.00	01 Feb 08	31 Jul 11
Sterilisation Consumables	5.20	04 Feb 10	03 Feb 13
Sutures, Skin Staples and Tissue Adhesives	6.00	07 Jun 09	06 Jun 13
Surgical Dressings, Tapes and Bandages	8.10	03 Apr 10	02 Apr 14
Surgical Instruments – Laparoscopic	5.00	30 Jun 07	09 Oct 11
Trauma Implants	16.00	08 Dec 09	07 Dec 11
Wound Care	5.50	01 Mar 07	28 Feb 12
<b>Total</b>	<b>375.93</b>		

Source: Victorian Auditor-General's Office based on data from Health Purchasing Victoria.





## Appendix B.

# *Audit Act 1994* section 16— submissions and comments

### Introduction

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In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Health, Health Purchasing Victoria, Melbourne Health, Peninsula Health, Latrobe Regional Hospital and Castlemaine Health with a request for submissions or comments.

Responses were received as follows:

The Department of Health .....	36
Health Purchasing Victoria .....	38
Latrobe Regional Hospital .....	40

Further audit comment:

Auditor-General's response to Latrobe Regional Hospital .....	42
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The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

**RESPONSE provided by the Secretary, Department of Health**



**Department of Health**

Secretary

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19 OCT 2011



e2493503

Mr Des Pearson  
Auditor-General  
Victorian Auditor-General's Office  
Level 24, 35 Collins Street  
Melbourne VIC 3000

Dear Mr Pearson

Thank you for your letter dated 6 October 2011 and providing the opportunity to comment on the proposed audit report for the performance audit **Procurement Practices in the health sector**.

Please find enclosed the Department of Health's response for inclusion in the report.

Yours sincerely

**FRAN THORN**  
Secretary

Enc.



**RESPONSE provided by the Secretary, Department of Health – continued**

**Department of Health response to recommendations in the report:  
Procurement Practices in the health sector**

General comment:

I note the audit didn't find any matters of impropriety nor any significant systemic practise issues and I am pleased to also note that HPV was found to improve its relationship with the public hospital sector in recent years while making significant savings for the sector and operating robust, transparent and well managed tendering processes and practices.

However, there is always room for improvement and I accept the recommendations of the report to see finalisation of implementation on matters such as the asset management framework for medical equipment, strategic hospital procurement data management, HPV moving to fulfil all its legislative functions under the Health Services Act and look forward to health services and hospitals continuing their good work to demonstrate consistently robust and transparent procurement practices.

With regard to the specific summary recommendations I make the following comments:

- |                   |   |
|-------------------|---|
| Recommendation 1. | Support. The department is actively furthering the completion of the framework.   |
| Recommendation 2. | Support. The department is supporting Health Purchasing Victoria with resources in this implementation.   |
| Recommendation 3. | Support. The department will continue to advise the Minister on the HPV business strategy and direction.  |
| Recommendation 4. | Support. HPV will continue to receive support from the department in the many varied forms currently in place. The department will advise HPV and the Minister on business direction. |
| Recommendation 5. | Support. This is a matter for HPV.  |
| Recommendation 6. | Support. This is a matter for HPV.  |
| Recommendation 7. | Support. This is a matter for HPV.  |
| Recommendation 8. | Support. This is a matter for hospital and health service boards.   |

**RESPONSE provided by the Board Chair, Health Purchasing Victoria**



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Mr D. D. R. Pearson  
Auditor-General  
Victorian Auditor-General's Office  
Level 24  
35 Collins Street  
Melbourne Vic 3000

Dear Mr Pearson

**Performance Audit – Procurement Practices in the health sector**

Thank you for the opportunity to formally respond to the Proposed Report of 6 October 2011.

We are pleased to note that the audit found that HPV has built credibility and improved its relationship with the public hospital sector in recent years, performs central procurement well and is making significant savings. It is also pleasing to note that the audit found HPV tendering processes to be robust, transparent and well managed.

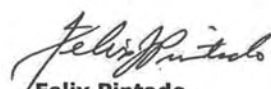
As always there is room to improve, for both HPV and the health sector, and we look forward to working with the government to further expand HPV capacity to take on a broader leadership role in health procurement in line with our legislative functions.

HPV accepts the Auditor-General's Report as a further milestone in its evolution, coming as it does in the tenth year of HPV. The report and its recommendations will be used to guide our thinking as we develop a new five year (2012-2017) strategic plan which capitalises on the strong relationships developed by HPV with the sector and the strong return on investment. Development of this strategic plan is intentionally timed to coincide with the release of this report.

I would like to acknowledge the support of the HPV Board and the work of HPV Chief Executive, Megan Main and her staff over the past five years in transforming HPV into a true partner of public hospitals. I also wish to thank the Department of Health for its support and Victoria's public hospitals for their ongoing commitment to collaborating with HPV.

In the attached table we provide our responses to the specific recommendations made by the Auditor-General. Once again, thank you for the opportunity to respond to the report.

Sincerely

  
**Felix Pintado**  
Board Chair

Attachment HPV responses to recommendations

**RESPONSE provided by the Board Chair, Health Purchasing Victoria – continued**

<b>Attachment: HPV responses to recommendations</b>		
<b>VAGO Recommendation</b>	<b>HPV Response</b>	<b>HPV Comment</b>
1	That the Department of Health complete and implement the medical equipment asset management framework.	Supports HPV supports this recommendation.
2	That the Department of Health resolve public hospital procurement data problems by expediting the effective implementation of the Victorian product catalogue.	Supports HPV supports this recommendation. HPV will continue to lead, with support from the Department of Health, public hospitals and the National e-Health Transition Authority (NeHTA), the implementation of a common Victorian product catalogue. While implementation of the Victorian product catalogue will not in itself completely resolve public hospital procurement data problems it is an essential enabler of improved data management.
3	That the Department of Health oversee whether Health Purchasing Victoria is performing the functions assigned to it under the <i>Health Services Act 1988</i> .	Supports HPV supports this recommendation. The HPV Board is accountable to the Minister for Health. HPV recognises the role of the Department of Health in providing advice to the Minister regarding HPV performance. HPV agrees that such advice should appropriately include the extent to which HPV fulfils its legislative functions and any resources provided by or required from Government to support HPV in this regard.
4	That the Department of Health review resourcing for Health Purchasing Victoria to undertake its full legislative responsibilities in partnership with them.	Supports HPV supports this recommendation. HPV looks forward to scoping the additional resources required to take on additional responsibilities and the expected benefits which could be delivered and discussing with Government and the Department of Health.
5	That Health Purchasing Victoria aligns its plans, resources and performance monitoring with its functions under the <i>Health Services Act 1988</i> .	Supports HPV supports this recommendation subject to Recommendation 4 being implemented, but notes that plans must also take into account the priorities of the Minister for Health to whom the Board is accountable.
6	That Health Purchasing Victoria purposefully lead procurement improvement in the public hospital sector by actively fulfilling all its legislative functions.	Supports HPV supports this recommendation subject to Recommendations 4 and 5 above being implemented.
7	That Health Purchasing Victoria actively assure the probity of public hospital procurement practices.	Supports HPV supports this recommendation subject to securing adequate resources to undertake a leadership role in probity. HPV looks forward to the opportunity to work with hospitals to support them to have in place robust probity controls and monitoring mechanisms that ensure their procurement practices meet public sector probity standards.
8	That public hospitals revise their procurement strategies, policies and activities and monitor these to demonstrate consistently robust and transparent procurement practices.	Supports HPV supports this recommendation noting it is primarily a matter for public hospital Boards. HPV can support public hospitals to revise and improve their procurement strategies, policies and activities subject to securing adequate resources to undertake a leadership role in policy and practice. HPV is not currently resourced to deliver this role but sees significant value in a coordinated best-practice approach across the sector.



**RESPONSE provided by the Chair, Latrobe Regional Hospital**



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19 October 2011

Mr Des Pearson  
Auditor-General  
Victorian Auditor-General's Office  
Level 24, 35 Collins Street  
MELBOURNE VIC 3000

Dear Mr Pearson

Thank you for your letter dated 6 October 2011 and enclosed proposed Audit Report on *Procurement Practices in the health sector*.

Consistent with section 16(3)(b) of the *Audit Act 1994*, please find attached Latrobe Regional Hospital's response for inclusion in the report.

Yours sincerely

A handwritten signature in black ink, appearing to read "Kellie O'Callaghan".

Kellie O'Callaghan  
Chair  
Latrobe Regional Hospital  
Board of Directors

Enc.

cc: Tony Brown, Senior Audit Manager, VAGO



**RESPONSE provided by the Chair, Latrobe Regional Hospital – continued**

**Latrobe Regional Hospital (LRH) response to the recommendation provided to hospitals in the report on Procurement Practices in the Health Sector.**

**Results of hospital procurement testing**

LRH's foremost considerations in relation to procurement have been to ensure it is achieving best value for the hospital whilst minimising risks associated with its ongoing operations. The hospital's procurement decisions, particularly those relating to long-term arrangements; were either market tested, based on risk mitigation and/or involved exercising extension options that were available under existing contracts.

LRH acknowledges that some shortcomings in its record keeping and retrieval processes did not assist us in the Audit; however steps are in place to further improve this.

Specifically, in relation to the findings listed in figure 3A, the following comments are made:

The imaging arrangement involved aligning contracts in partnership with both Bairnsdale Regional and Central Gippsland Health Services. This was a long term strategy that involved extensive market research (mostly conducted through CGHS) and has resulted in significant savings and economies of scale.

In relation to vehicle leasing, LRH chose to exercise a 2 year option that was available under the current contract and approved by the Board. This enabled the hospital to achieve significant savings, reduce its fleet and minimise its carbon footprint. The decision took account of market factors (particularly market volatility following the significant disruption to the Japanese car market earlier this year).

The continuation of the waste management contract was an exception due to administrative error which led to insufficient notice being provided prior to the expiration of the agreement, resulting in a roll over for a further two years. Notwithstanding that, there is clear evidence that a process had already been instigated to test the market prior to this occurring. Steps have been put into place to ensure such error is not repeated.

Finally, in relation to accommodation, the hospital uses one particular venue for accommodating visiting specialists and staff specialists who are on call following surgical lists, ICU, anaesthetic and emergency departments. The venue in question is the closest motel to the hospital (within easy walking distance) and there is no other motel located within a 4km radius of the hospital. The decision to place on-call clinicians at this location is based solely on clinical considerations given its proximity to the hospital in an emergency setting. This is deemed the most favourable option from a risk mitigation and clinical standpoint, enabling the quickest possible response times in an emergency. There was ample evidence provided to show that accommodation for other visitors is generally sourced elsewhere in the area.

In summary, there is strong evidence of continuous improvement procurement practices being implemented at LRH and that these have resulted in significant savings and economies in recent years. LRH also submits that at the time of the Audit, the hospital's purchasing and quotation policies and protocols were more stringent than the Victorian Government Purchasing Board guidelines and LRH's Board is actively involved with many procurement decisions, particularly those exceeding \$100,000.

**Recommendation**

*Recommendation 8: That hospitals revise their procurement strategies, policies and activities to demonstrate consistently robust and transparent procurement practices.*

Accepted.

Latrobe Regional Hospital (LRH) notes that steps are already in place to implement revised tendering documentation, refine procurement policies and practices and to engage key staff in further education focused on the seven procurement principles. Planning is also well underway for the introduction of a new electronic document management system.

***Auditor-General's response to Latrobe Regional Hospital***

Latrobe Regional Hospital makes a number of comments in relation to the findings listed in Figure 3A. These simply repeat the circumstances surrounding the exceptions already identified by the audit. These explanations were considered during the audit but still do not demonstrate evidence of regular open market testing of these arrangements.

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