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AUDITOR GENERAL
MANITOBA

May 2010

Winnipeg Regional Health Authority –
Administration of the Value-Added Policy

Web Version

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Executive Management

Carol Bellringer
Jack Buckwold

Review Team

James Wright

Jeff Gilbert
Dennis Larson
Erika Thomas
Brian Wirth

Natalie Bessette
John Donnelly
Donovan Fontaine

Desktop Publisher

Jan Smith
Sandra Humbert

Cover Design

Cocoon Branding Inc.

Copies of this report may be obtained by contacting:

Office of the Auditor General

500 – 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

Phone: (204) 945-3790
Fax: (204) 945-2169
Email: oag.contact@oag.mb.ca

and is available on our website:

www.oag.mb.ca



May 2010

The Honourable George Hicke
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report titled, *Winnipeg Regional Health Authority – Administration of the Value-Added Policy*, to be laid before Members of the Legislative Assembly in accordance with the provisions of Sections 11, 14(4) and 28 of The Auditor General Act.

Respectfully submitted,

Original document signed by:
Carol Bellringer

Carol Bellringer, FCA, MBA
Auditor General

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1.0 Main Points

What We Examined

On January 31, 2009, a Winnipeg newspaper published an article titled *“What’s in the Envelope?”* It said that, since 2000, the Winnipeg Regional Health Authority (WRHA) *“accepted more than \$20 million in money, equipment and other gifts from medical suppliers”*. The article also said the funds were part of WRHA’s *“Value-Added”* policy – which allowed WRHA to *“accept cash and other bonuses given out by medical suppliers awarded contracts”*.

On February 5, 2009, we informed both the Minister of Health and the Chair of the WRHA Board that we would audit WRHA’s purchasing process, specifically, the administration of the Value-Added policy. Our audit goals were to:

1. determine the total dollar value of Value-Adds received from December 1, 1999 to May 31, 2009;
2. determine the nature of each Value-Add item WRHA accepted;
3. assess if the Value-Added policy was being followed;
4. assess the competitive bid process and verify prices paid for goods and services;
5. evaluate the selection process for major construction projects;
6. assess the adequacy of public reporting for items procured; and
7. determine if WRHA Board or Committee members, senior management, or other employees benefitted personally from Value-Adds.

Why It’s Important

WRHA’s annual budget of \$2 billion and its funding of over 200 health service facilities and programs are significant to Manitoba’s healthcare system. Given the importance of healthcare to the public, confidence in the integrity of WRHA and its controls over spending is critical. The reference to “cash” in “brown envelopes” has the effect of undermining that confidence. Our audit aimed to substantiate- or dispel- this concern.

Much has been written about anti-corruption in procurement. For example, in 2007, the Organization for Economic Co-operation and Development issued a report titled, *“Integrity in Public Procurement,”*¹ stating, *“Of all government*

1) www.oecd.org/document/60/0,3343,en_2649_34135_38561148_1_1_1_1,00.html

activities, public procurement is most vulnerable to corruption.” One excellent document we reviewed, titled, “Ethics, Probity and Accountability in Procurement,”² and issued by the Queensland Government, outlined best practices in procurement.

Common to these and other guidelines for best practices in public procurement is the need for fairness and impartiality throughout the process—as well as accountability and transparency. Protections against blatant forms of corruption, such as bribery and kickbacks, include: public tendering, clarity in tender documents around the selection criteria, and the involvement of more than one person in opening tenders and choosing winners. Protection is also needed against more subtle activities that are seen to corrupt the level playing field. In our view, full transparency is a key element to protect organizations against the perception of bias in the procurement process and to maintain integrity in the system.

While our audit was designed to address the Value-Add issue, we also assessed certain aspects of the procurement process and the adequacy of public reporting to identify opportunities to strengthen accountability and transparency to avoid such perceptions of bias.

What We Found

The Value-Adds that WRHA received took the form of cheques as well as product, equipment and education. We found no evidence that anyone benefitted personally from Value-Adds. The cheques were received in the form of unrestricted or restricted funding. Our audit confirmed that all such funding was properly recorded by WRHA. There was no indication that there was ever any “cash” in “brown envelopes”. Controls around the Value-Adds for product, equipment and education were weak, but this control weakness was isolated to these items. Tendering for goods and services and construction contracts was well controlled and included a competitive bidding process, except for the project consultants for construction contracts, which were not tendered.

Our findings with respect to the seven audit goals are as follows:

1. **The total dollar value of Value-Adds** - The original estimate of \$20 million in Value-Adds included \$8,478,959 in supplier rebates, incentives, and other items. The actual amount of Value-Adds received from December 1, 1999 through May 2009 was \$11,246,809. At May 31, 2009, WRHA had accepted an additional \$2,335,940 of Value-Adds to be received in future years. A list of Value-Adds received from specific suppliers is in Appendix A.

2) www.qgm.qld.gov.au/00_downloads/bpg_probity.pdf

2. **The nature of items WRHA accepted** - Of the amounts received, \$9,543,648 was cash in the form of cheques payable to WRHA. We verified that WRHA properly recorded these amounts. The remaining \$1,703,161 was received in the form of product, equipment or education. We were able to verify 100% of education, 95.4% of product, and 87.3% of equipment. But we also found that WRHA had weak controls over these items and did not record them.
3. **WRHA's Value-Added policy** - Value-Adds must be separated from supplier bids during the bid-evaluation process. WRHA followed this policy. The intention of the Value-Added policy is to ensure impartial bid selection. In theory, this is good practice, but in reality, there could be an influence from Value-Adds on vendor selection over time. Suppliers to WRHA also donate to Manitoba's hospitals and universities, which may also influence decisions. In our view, including all unsolicited offers in bid evaluations, combined with public disclosure of vendor payments and Value-Adds, would reduce the possibility of influence.
4. **The bidding process** - For those items we audited, the price paid matched the contract price and a competitive bid process was used. Control sheets that summarized bid submissions had two signatures. Evaluation committees typically consisted of several individuals. These internal controls cannot eliminate the possibility of fraud through collusion or prevent suppliers from providing personal benefits outside the system. But we did not receive-nor did we find-any evidence to suggest that was happening.
5. **The selection process** - We did not find any Value-Adds in construction contracts that we audited. But WRHA did not use a competitive bid process to select project consultants.
6. **Public Reporting** – Unlike vendor payments made by core government, WRHA's vendor payments are not publicly reported. Greater transparency would reduce the perception of bias and strengthen WRHA's accountability to the Legislature and the public.
7. **Personal benefits** - We found no evidence that anyone benefitted personally from Value-Adds. The wording in the Value-Add policy that *"... may also benefit Board Members, WRHA Logistics Services employees, Facility/Program employees, WRHA employees or Physicians"* should be amended.

2.0 Audit Approach

Conducted between February 2009 and May 2010, the audit covered the period from December 1, 1999 (WRHA's inception) to May 2009. The WRHA provided us with a list of the Value-Add items that comprised the \$20 million reported in the newspaper. We examined the files supporting the items on the list to determine the nature of each Value-Add and if the policy was being followed. We selected 140 additional contract files to ensure the list was complete. For those contracts in our sample that were over \$100,000 we conducted procedures to verify that WRHA was paying only the contracted amount for goods and services. This involved examining procurement documentation at the following sites:

- Health Sciences Centre;
- St. Boniface General Hospital;
- Grace General Hospital;
- Victoria General Hospital; and
- Misericordia Health Centre.

Because WRHA also administers several construction projects for health care sites, we selected all capital projects over \$20 million, searching for any Value-Adds and assessing if WRHA policies were being followed.

We interviewed:

- all WRHA Board Members that served during the years 2006 to 2009;
- all WRHA Logistics Services Contract Specialists;
- all current Product Review, Evaluation and Standardization (PRES) Committee Chairs; and
- senior management of both the WRHA corporate office and Logistics Services.

Our audit was conducted in accordance with standard practices for assurance engagements as recommended by the Canadian Institute for Chartered Accountants. Accordingly, it included tests and other procedures that we considered necessary.

3.0 WRHA Background

Winnipeg Regional Health Authority (WRHA) was established on December 1, 1999. WRHA is one of 11 Regional Health Authorities in Manitoba. The Winnipeg Health Region serves residents of the City of Winnipeg, as well as the Rural Municipalities of East and West St. Paul, with a total population of just over 700,000 people.

More than 28,000 people work in the Winnipeg Health Region. WRHA's operating revenue for the 2009 fiscal year was \$2 billion, provided by the Province of Manitoba through the Department of Health and Healthy Living. WRHA provides or funds healthcare services through over 200 facilities, including:

- Two tertiary hospitals;
- Four community hospitals;
- Four health centres;
- 38 personal care homes;
- 22 community health offices; and
- 12 community health agencies.

WRHA's procurement process, including the Value-Added policy, is administered centrally by its Logistics Services Division. The Value-Added policy is applicable to all WRHA governed sites, including any WRHA funded hospital or Personal Care Home.

4.0 Procurement Process

Logistics Services at WRHA is responsible for the competitive bidding process and the ongoing management of procurement contracts. WRHA enters into contracts with many different suppliers for goods and services used by all sites in the WRHA region. Although sites procure and pay for their own goods, Logistics Services is responsible for ensuring that all sites follow the purchasing policy in order to ensure access to the best prices and quality for contracted goods and services.

The procurement process begins when a new good or service is required, or when an existing contract is nearing expiration. Logistics Services prepares a survey and forwards it to the applicable sites for the users of the good or service to complete. The survey results help define the needs of the sites and help Logistics Services ensure that the needs are covered in the competitive bid document for the goods or services. Logistic Services drafts the document and posts it on a public website (www.Bidding.com is currently used) for interested parties to view.

Bidders can respond to the competitive bid document with detailed proposals. Proposals must be received by the deadline to be evaluated. Late bids are returned unopened to the sender. Bidders who want to include Value-Adds as a part of their bid must put the Value-Add in a separate envelope (Value-Adds are explained in detail in the next section). The receptionist holds all submitted bids until the closing time. Two Logistics Services staff (a Contract Specialist and a Contract Analyst) open the bids and initial a control list to confirm the date and time the bid was received and to confirm that all bids received were opened.

Logistics Services prepare an analysis of all compliant bids received to summarize the detailed bids of each supplier or service provider and forward it to the group that recommends the winning bidder. This group is known as the Product Review, Evaluation and Standardization Committee (PRES) for consumables contracts and the Proposal Evaluation Committee (PEC) for capital equipment and service contracts. The criteria and weightings are determined by PRES or PEC prior to being included in the competitive bid document. The PRES or PEC recommend the successful bidder to the appropriate level of management (depending on the total dollar value of the contract) who ultimately approves the winning bidder by signing the Contract Authorization form.

The signing authorities for the Contract Authorization form are as follows:

- Director, Regional Supply Chain – up to \$1,000,000;
- Chief Financial Officer – up to \$2,000,000;
- Chief Executive Officer – up to \$5,000,000; and
- Board of Directors – over \$5,000,000.

PRES typically consists of 12–14 stakeholders who represent their respective WRHA Clinical and Clinical Support Program/Department and participate in the contract development process. There is a standing PRES Committee for each program, such as the renal program and the medical-surgical program. The membership of the PRES committee is managed by Logistics Services. When members are needed, a request is sent to the respective program asking them to recommend a member to fill the needed position. Occasionally, the PRES Committee will strike a work group for a program if more expertise is required. These work groups will make a recommendation to the respective PRES Committee for final approval. There are currently 14 PRES Committees in use by WRHA:

- Administrative Support;
- Cardiac Sciences;
- Critical Care;
- Diagnostic Imaging;
- eHealth Services;
- Food Service;

- Housekeeping;
- Laboratory;
- Linen and Laundry;
- Medical Surgical;
- Operating Room;
- Pharmacy;
- Physical Plant; and
- Renal.

Capital equipment and service contracts are usually site-specific contracts. PEC consists of 2-36 stakeholders, often including individuals such as the Regional Director of the applicable program and doctors and nurses who will use the equipment. The size of the PEC will depend on the number of sites involved in the purchase of the equipment. If the equipment is for use at just one site, PEC would contain a small number of individuals. Equipment that will be used by the entire region will involve a PEC with many more individuals. The PEC Committee recommends which proposal wins and WRHA management then makes the final decision by signing the Contract Authorization form. In almost all instances, management's decision is consistent with the recommendation of the PEC Committee.

When a proposal succeeds, a contract authorization form is signed by the appropriate management level, depending on the dollar value of the contract. The signed form provides the necessary approvals to allow Logistics Services to enter into a formal contract with the vendor.

4.1 Value-Adds

Value-Adds are defined by WRHA as *"Any funds, items or services which directly benefit a Facility/Program/Agency or WRHA Logistics Services, but may also benefit Board members, WRHA Logistics Services employees, Facility/Program employees, WRHA employees or Physicians and are not identified as a mandatory requirement in the competitive bid document"* (Value-Added Policy - June 2007, see Appendix C).

The WRHA's Conflict of Interest Policy states that *"Staff shall not accept gifts, gratuities or entertainment from current or prospective vendors or suppliers that may have a real or perceived influence on their objectivity in the performance of his or her duties"*. The Policy also states that *"staff shall at all times not use their position with WRHA Facilities for Personal Gain"* (Conflict of Interest Policy – June 2008, see Appendix D).

Value-Adds typically fall into one of the following four categories:

- Complimentary Product and Services;
- Complimentary Equipment;
- Unrestricted funding; and
- Restricted funding (restricted by the vendor as to the use of the funds – usually restricted for educational use or research).

4.2 Value-Adds Process

As part of the procurement process, WRHA issues a competitive bid document, which tells bidders to put any Value-Adds they want to offer in a separate envelope from their proposal and clearly mark it as a Value-Add. When a vendor includes a Value-Add with their bid, it consists of a document outlining the Value-Add offering. The analysis of proposals that Logistics Services staff prepare for the decision-making group excludes any Value-Adds. This exclusion is intended to ensure that the award decision is fair and impartial and based on the best product or service at the lowest price—without considering any Value-Add.

Beginning in 2007, the President and Chief Executive Officer issued a memo indicating that the WRHA would no longer accept restricted Value-Adds. The Value-Add Policy was not changed but the competitive bid documents have been changed to reflect this directive.

All bids, including Value-Adds, are opened with at least two Logistics Services employees present. The actual Value-Add, should WRHA choose to accept it, is provided to WRHA after it signs a contract with the winning bidder. In some situations, WRHA declines the offer when there is no benefit to accepting the Value-Add.

An example of an actual Value-Add in a proposal for infant formula was funding of \$330,000 a year allocated as follows: the Women and Child Health Program (\$100,000), Research (\$210,000), and staff education (\$20,000). Funding these programs was not a requirement of the competitive bid document that WRHA issued. In some cases, bidders include the Value-Add with their proposal, not in a separate envelope. Logistics Services staff must then remove all Value-Add references from the proposal before the evaluating committee can see it. They know that a Value-Add exists, but not its details.

5.0 Review of Value-Adds

Our audit of the Value-Adds began with a list prepared by WRHA of 132 items totaling \$22,061,708. The list included supplier incentives, rebates and other items totaling \$8,478,959. We verified that these items did not meet the definition of Value-Adds.

After removing the supplier incentives, there were Value-Adds totaling \$13,582,749 on the WRHA list. Of this total, \$2,335,940 of Value-Adds had not yet been received by the WRHA at the time of our audit, leaving 110 Value-Adds totaling \$11,246,809 that had been received by the WRHA since December 1, 1999.

We audited the contract file for each of the 110 Value-Adds to see if WRHA followed the Value-Add policy. This included ensuring each file contained:

- A competitive bid document indicating that Value-Adds will be considered and that any Value-Adds should be provided in a separate envelope with “Value-Add” marked on the envelope.
- Documentation from the supplier confirming the Value-Add.
- Evidence that the Value-Add was excluded from the analysis of the bids by the committee selecting the successful bidder.
- A Value-Add approval form signed by the Chief Financial Officer (this requirement was effective in 2003). This indicates that WRHA has formally accepted the Value-Add.

We also audited another 140 randomly selected files, searching for Value-Adds that may have been accepted by WRHA but omitted from the list. Additionally, these files were audited to ensure compliance with WRHA policies and to ensure that items were bought at the contract price. Our findings are in Section 6.0.

Observations

- Interviews with WRHA staff revealed cases where staff learned of suppliers contacting members of a Committee and telling them of Value-Adds offered. During our interviews with the PRES Committee chairs, we asked if vendors had tried to circumvent the procurement process by directly contacting PRES Committee members. We were told that this does happen, although infrequently. While both staff and PRES Committee Chairs indicated to us that they told the suppliers that this was inappropriate, Committee members would still have been aware of the existence of the Value-Add despite its separation from the bid package.

- The Committees prepare an award matrix which summarizes all of the bidders and how well their bids meet the criteria for each competitive bid document. For each of the items on the Value-Add listing, we reviewed the award matrix and determined that the contract was awarded to the highest scoring bidder in each case.
- Competitive bid documents used by WRHA had appropriate information to inform bidders that Value-Adds would be accepted and, if offered, should be in a separate envelope and clearly indicated as Value-Adds. But bidders did not always use separate envelopes. In these situations, Contract Specialists removed any mention of Value-Adds from the bid so the evaluation committees did not know the contents of the Value-Add. No evidence was found that suggested that the Committee knew the details of Value-Adds before selecting the winner.
- The control over the receipt of Value-Adds is that two individuals open each bid submission and they sign the bid control listing. We saw evidence of two signatures for each item we tested.
- Appendix A provides the list representing the 110 Value-Adds totalling \$11,246,809. These relate to 45 contracts with a first-year total value of \$67,533,382. 24 of these vendors only provided Value-Adds once.
- For 5 of the 110 Value-Adds (totalling \$337,482), supporting documentation outlining the Value-Add was not in the file. These Value-Adds consisted of product and equipment.
- For the 110 Value-Adds listed:
 - 72 (66%) were properly approved by senior management, totaling \$7,689,981;
 - 16 (14%) were accepted before there was a requirement for senior management approval, totaling \$3,419,368; and
 - 22 (20%) had no evidence of senior management approval as required, totaling \$2,473,400.
- All Value-Adds received in the form of unrestricted and restricted grants were properly recorded in WRHA's accounts. WRHA's accounts track the total revenue and funding received. Restricted grants are also allocated to specific funds which are identified by the suppliers in their offerings. Restricted grants were allocated to programs as presented in Appendix B.
- Non-monetary Value-Adds (product, equipment and education) were not recorded in WRHA's accounts.

- WRHA's process to track Value-Adds is a simple spreadsheet updated by a contract analyst when he or she is notified of WRHA accepting a Value-Add. The process relies entirely on WRHA staff notifying the contract analyst of each new Value-Add.
- There is no formal process in place to ensure that all Value-Adds that WRHA accepts are actually received, or to contact vendors when promised Value-Adds are not received. Over time there is no verification that the equipment is still in place.
- From file reviews, and through additional work, including review of receiving reports and confirmations from vendors, we were able to verify 95.4% of the product, 87.3% of the equipment and 100% of the education Value-Add offerings listed on the spreadsheet. The specific Value-Add items that we could not verify were:

Value-Add	Type	Value
Di-Vi-Sol	Product	\$ 28,800
Midas EHS Drill System	Equipment	87,182
Stealth Gen II IGS System	Equipment	175,000
Screws and Cannula	Equipment	6,500
Stents	Equipment	40,000
Total Unverified Value-Adds		\$337,482

- WRHA management acknowledged that the Value-Add list, with dates of when Value-Adds were received, was specifically prepared for our audit from the spreadsheet and was not easily produced.
- We interviewed all 27 members of WRHA's Board from 2006 to present to learn what Board members think about Value-Adds and WRHA's process for them. Almost all Board members agree that Value-Adds are beneficial to WRHA by providing good value for the money spent, however, the Board is split just about evenly on whether WRHA should continue to accept them. The most common reason provided for why Value-Adds should no longer be accepted was that Value-Adds have a negative public perception. Two-thirds of Board members feel that if WRHA were to continue to accept Value-Adds, they should maintain the existing practice of not including them in the evaluation of the tenders.
- From interviews with the 27 Board members, WRHA senior management, Logistics Services staff and all 14 PRES Committee chairs, combined with file reviews, we found no evidence that anyone benefitted personally from a Value-Add.

- The WRHA's Conflict of Interest Policy prohibits staff (which is defined to include Board members) from using their position at WRHA for personal gain. The wording in the Value-Add policy *"may also benefit Board Members, WRHA Logistics Services employees, Facility/Program employees, WRHA employees or Physicians"* is inconsistent with the conflict of interest policy.
- Value-Adds are excluded when assessing bids with the intention of ensuring an objective selection process based only on what product or service best fits the needs of the sites at the most competitive price. In theory, this is good practice, but in reality, it's impossible to know the influence of Value-Adds on vendor selection. For example, the PRES Committee and the PEC Committee don't get Value-Add information, but when they deal with the same vendor who has provided Value-Adds in the past, they may assume the pattern will continue.
- To better understand Value-Adds, we contacted six health authorities across Canada to see how they handle Value-Adds. Four of them indicated that they accept Value-Adds, and only one of them did not include the Value-Add in the evaluation of bids.
- When the Core Government makes vendor payments over \$5,000, they are publicly disclosed in Volume Two of the Public Accounts in the "Statement of Payments in Excess of \$5,000 to Corporations, Firms, Individuals" providing transparency over the spending of public funds. There is no similar reporting of vendor payments for organizations outside the Core, including WRHA. In December 2009 we reported to the Legislature that *"The Government should review the need for all the organizations in the Government Reporting Entity to provide more disclosure of vendor payments and in doing so balance the need to provide information which is relevant and that which is practical and cost effective to produce. This should include a review of the threshold for reporting vendor payments which is currently very low and results in voluminous reports."* In the case of the WRHA, because purchases may include a Value-Add component, disclosure should also include that information.

Recommendations

We recommend that WRHA:

1. ensure all contract files include complete documentation on Value-Adds, including vendor documentation and senior manager approval.
2. track and record all Value-Adds, including non-monetary items, for control and accounting purposes.

3. include all unsolicited offers in the bid evaluation process.
4. amend the Value-Add policy to remove the reference to “may also benefit” Board Members and others.

WRHA Response:

All of the issues raised by these recommendations have been addressed by the Board's decision of May 25th to delete the Value-Adds policy and amend the Purchasing policy to reflect the reality that WRHA no longer accepts any Value-Adds and hasn't from any bids submitted after April, 2007.

5. publicly disclose vendor payments and Value-Adds.

WRHA Response:

The fifth recommendation's call for the Region to “publicly disclose Value-Adds” is also addressed by the Board's decision of May 25th. Its advice that the Region also “publicly disclose Vendor payments” echoes a recommendation made to Government (December 2009) that it “review the need for all organizations in the Government Reporting Entity to provide more disclosure of vendor payments” including a “review of the threshold for reporting vendor payments”. As an interim step, the WRHA will be reviewing its contractual obligations as well as those contained in FIPPA to determine how best to address this issue, pending further advice and direction from government.

6.0 Review of Other Files

We randomly selected and then audited 140 files to ensure the Value-Add listing provided by the WRHA was complete. Additionally, these files were reviewed for compliance with WRHA policies and to ensure that items were bought at the contract price. We examined each file for:

- a competitive bid document that was publicly listed either in a newspaper or an internet site that is commonly used by prospective bidders such as MERX or Biddingo;
- a tender control document which lists each bid that has been received and the date and time that it was received;
- a bid analysis matrix which is used by the committee analyzing the bids to score each proposal on the criteria developed for the specific items or

services being tendered;

- the proposal submitted by the winning bidder;
- a Contract Authorization form, signed by the Contract Specialist and the Director which provides the authority to enter into a contract with the winning bidder; and
- a signed contract or award letter. An award letter states that the terms and conditions of a bidder's bid have been accepted. This forms a legal contract.

Observations

- We were able to find appropriate support to demonstrate that a competitive bidding process took place. For more recent files we agreed both the winning and losing proposals to the information included on the award matrix, which was included in the file. For older files, we agreed the winning proposal to the information on the matrix. Proposals for unsuccessful bidders were no longer retained in the file but were listed on the matrix. We determined that the contract was awarded to the supplier receiving the highest score on the matrix. Each award process involved several committee members preparing the matrix, which provides adequate assurance against individual bias in the selection of the winning bidder.
- For all contracts greater than \$100,000 from the files we selected, we confirmed that the price paid for goods and services matched the contracted price.
- It was difficult to link individual payments back to the contract. Logistic Services' process of entering into contracts is completely separate from the sites' purchasing of contracted goods and services. The sites that buy the goods and services do not effectively record the contract number they use. Any auditor from WRHA would experience difficulty tracing the payments back to the contracts.

Recommendation

6. We recommend that WRHA develop a coding protocol to be implemented at all sites in order to enable the matching of contracts and related payments.

WRHA Response:

The Region accepts recommendation six will improve the way it documents and tracks contracts and vendor payments and so will be adopting it as we update and upgrade our systems and processes.

7.0 Capital Projects

Contracts for capital projects, such as building construction, are administered by WRHA's Capital Planning and Construction Division (CPC), not Logistics Services. We extended our work to ensure that there were no Value-Adds in this area.

We selected all capital files over \$20 million (16 files). They had a total project value of \$162,741,707. For these files, we:

- examined the competitive bid document to determine if the contract was publicly tendered;
- assessed if the tender package details were accurately recorded on the tender control sheet;
- ensured that the contract was awarded to the lowest bidder (WRHA policy for capital contracts);
- examined all contract related documentation for any potential Value-Adds;
- examined the signed construction contract for signatures of authorized WRHA officials and representatives of the winning bidder;
- matched amounts from the winning bid submission to the tender control sheet and to the signed contract; and
- determined the process WRHA used to decide on the project consultant.

Observations

- Much of the documentation from older files was not available because the policy of CPC was to destroy this information after 7 years. Six of the 16 files were more than 7 years old, so most of the documentation had been destroyed. We were able to review a signed contract for these 6 files. There was no indication that there were any Value-Adds in the contract.
- For the 10 files with documentation:
 - the competitive bid document had been publicly tendered;
 - tender control sheets accurately recorded the bids;
 - no Value-Adds had been offered;
 - the contract was awarded to the lowest bidder; and
 - the amounts in the winning bid matched both the tender control sheet and the signed contract.

- WRHA doesn't have a separate or distinct tendering policy or process for capital construction projects. CPC follows the policies, including dollar limits in place for all other WRHA purchasing (i.e., all purchases over \$25,000 must be competitively tendered), there is no written documentation that provides policies and procedures for the planning, administration and building of capital construction projects.
- WRHA capital construction projects are financed by the Province of Manitoba and are therefore subject to Treasury Board approval. Treasury Board approval is required a minimum of three times for each construction project in excess of \$500,000, at the design phase, the tendering phase and the construction phase. This approval requirement provides an added layer of control over construction projects.
- WRHA doesn't request formal proposals for the project consultant services portion of capital projects. Firms are selected based on past experience with similar projects. If the construction project involves renovating a heritage building, for example, WRHA will award the job to a consultant that has experience with this type of project. Rates paid to project consultants are set by the Province however, a competitive tendering process for project consultants would provide WRHA with different perspectives and permit them to be more transparent.

Recommendations

We recommend that WRHA:

7. develop a formal documented policy for capital project tendering.

WRHA Response:

The WRHA currently follows its general procurement policy for all capital projects and also follows the Province of Manitoba's Treasury Board capital construction authorization policy, but recognizes the value of developing a formal separate policy for capital project tendering because of the nature, size and scope of these projects.

8. select project consultants using a competitive tendering process.

WRHA Response:

While selecting project consultants through a competitive tendering process will not affect the actual bid as these rates are set by provincial tariff, the WRHA accepts this recommendation in order to receive new perspectives and be more transparent.

8.0 WRHA Comments

The Winnipeg Regional Health Authority accepts the findings of the Auditor General in the Report of the Special Audit: WRHA Value-Adds.

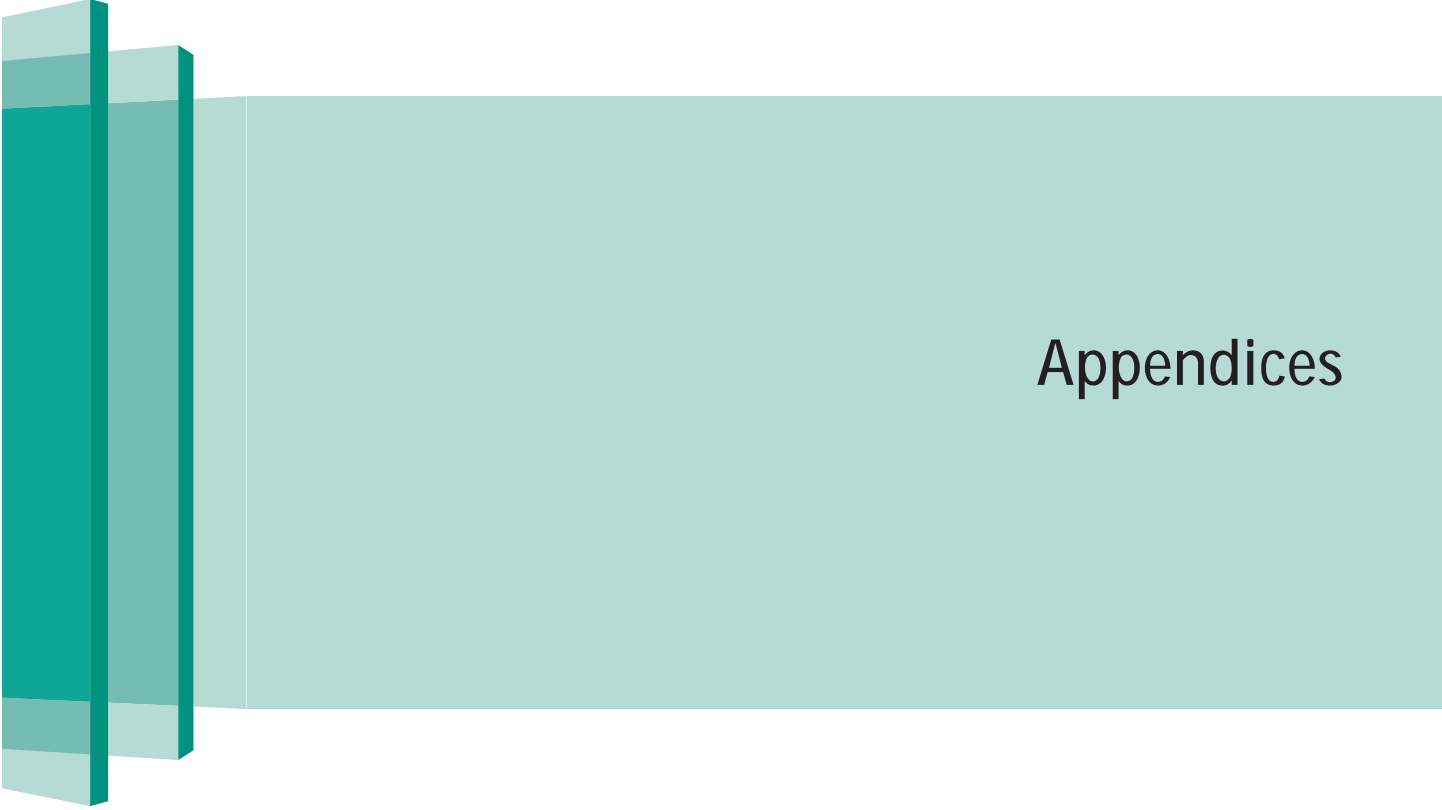
The WRHA takes seriously its responsibility to ensure all of its processes surrounding the accepting and awarding of contracts are above reproach for the reasons outlined in the “Why It’s Important” section of the Report.

For those reasons, the WRHA adopted a policy that required any ‘extras’ not be considered as part of the bidding process in order to remove even the perception of vendors unduly influencing the competitive bidding process. After further review, the region then decided, and informed vendors, that its practice would be to accept only ‘unrestricted’ Value-Adds - benefits the Region could direct to the program / site / facility most in need, not to one chosen by the vendor. At the time, the Region’s Senior Management Team and its Board of Directors all recognized that decision would likely result in a significant reduction in the number and size of Value-Adds received as this further reduced the vendor’s ability to influence the bidding process.

As a result of that change in practice, the WRHA has not received or accepted any Value-Adds from any bids submitted after April 2007.

After media coverage that called into question the region’s policy and practices, then President & CEO, Dr. Brian Postl wrote to you (February 3, 2009) requesting that your office review them in order to alleviate public concerns raised as a result of the coverage. The OAG informed both the WRHA and Government that it would undertake such a review (February 5, 2009).

Since then, WRHA Senior Management recommended to its Board of Directors that the Value-Adds policy be deleted and the General Purchasing policy be amended to reflect the current reality: that the WRHA does not accept Value-Adds. The WRHA Board of Directors passed a motion to that effect on May 25, 2010.



Appendices

Value-Added Benefits by Vendor December 1, 1999 to May 31, 2009

Appendix A


Vendor	Unrestricted Funding	Restricted Funding	Product	Equipment	Education	Total	# of Contracts Containing Value-Adds	Value of Contract-Year 1
3M	\$ -	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500	1	\$ 756,126
Abbott Ross	-	25,000	-	-	-	25,000	2	2,067,279
Alcon	-	135,000	-	-	-	135,000	1	2,823,031
Amgen Canada	-	722,719	-	-	-	722,719	1	3,453,691
Baxter Corporation	1,102,081	870,000	-	-	-	1,972,081	3	8,462,209
Bayer Healthcare	-	-	18,468	-	-	18,468	1	307,066
Berlex	-	30,000	-	-	25,200	55,200	1	194,345
BioMerieux	-	2,500	529,695	-	-	532,195	1	1,068,012
Boston Scientific	-	-	-	225,000	-	225,000	1	1,619,177
Bristol-Myers	-	200,000	-	-	-	200,000	1	359,028
ConMed Linvatec	-	-	-	29,324	20,000	49,324	1	112,898
Convatec	-	-	-	-	9,000	9,000	1	1,254,743
Fresenius	-	1,488,805	-	-	-	1,488,805	1	2,431,833
GE Healthcare	-	200,000	-	83,071	-	283,071	2	1,388,331
Guidant	-	6,459	-	-	5,000	11,459	2	2,792,842
IBM	-	-	-	128,443	-	128,443	1	889,695
Janssen-Ortho	-	448,750	-	-	-	448,750	2	1,316,474
Johnson Diversey	-	8,000	-	-	-	8,000	1	112,243
Jomed Canada	5,000	-	-	40,000	-	45,000	1	707,805
KCI Medical	-	-	-	-	10,000	10,000	1	615,155
Mead Johnson	430,000	2,275,000	78,250	-	24,000	2,807,250	5	1,252,169
Meditronic	-	-	-	262,182	-	262,182	1	349,880
Novo Nordisk	70,000	-	-	-	-	70,000	1	145,016
Ortho-Biotech	-	1,153,984	-	-	-	1,153,984	1	5,486,990
Osiris	-	-	-	23,600	-	23,600	1	286,000
Pharmaceutical Partners	4,277	-	-	-	-	4,277	1	15,025,350
Rana Medical	-	60,000	-	-	-	60,000	1	3,914,184
Roche Diagnosis	-	32,000	-	-	-	32,000	2	3,743,341
Source Medical	-	-	-	3,250	-	3,250	1	113,000
Spacelab Medical	-	8,573	-	-	-	8,573	1	857,336
Summit Technologies	-	-	-	58,110	-	58,110	1	1,014,908
Tyco	-	264,000	5,768	124,800	-	394,568	3	2,613,225
Total	\$ 1,611,358	\$ 7,932,290	\$ 632,181	\$ 977,780	\$ 93,200	\$ 11,246,809	45	\$ 67,533,382

Appendix B Restricted Funding Allocation
December 1, 1999 to May 31, 2009

Program or Fund	Amount
Capital Equipment	\$ 285,174
Cardiac Education	6,459
Corporate	132,384
Diagnostic Imaging Education	30,000
Gastroenterology	112,500
Infectious Diseases Research	200,000
Laboratory	32,000
Market Research	10,000
Misericordia Health Centre Foundation	135,000
Nursing	8,573
Nutrition and Food Services	33,000
Renal Education and Research	4,294,200
Respiratory Therapy	1,500
St. Boniface General Hospital Foundation Endowment	1,500,000
Sleep Disorder	60,000
Studies	2,500
Surgery	262,500
Women's Health	645,000
Wound Management	1,500
Other	180,000
Total	\$ 7,932,290

Value-Added Policy

Appendix C

 <p>POLICY</p>	REGIONAL Applicable to all WRHA governed sites and facilities (including hospitals and personal care homes), and all funded hospitals and personal care homes. All other funded entities are excluded unless set out within a particular Service Purchase Agreement.		Level: 1
	Policy Name: Value Added	Policy Number: 40.00.020	Page 1 of 4
	Approval Signature: <i>Original signed by B. Postl</i>	Section: LOGISTICS SERVICES	
	Date: June 2007	Supercedes: January 2003	

1.0 PURPOSE:

- 1.1 To provide guidance for Winnipeg Regional Health Authority (WRHA) Logistics Services employees, Facility/Program/Agency employees, WRHA employees, Board Members and Physicians, in:
- their relationships with vendors;
 - identifying and differentiating between value added benefits and supplier incentives during the competitive bid process;
 - understanding how to evaluate and include value added benefits in contracts;
 - ensuring the fair and equitable treatment of all vendors involved in business dealings with WRHA Logistics Services and the Facilities/Programs;
 - ascertaining that the Facilities/Programs are getting the best value for the dollars they spend.
- 1.2 This policy shall be read in conjunction with Conflict of Interest/Personal Gains Policy – presently under development.

2.0 POLICY:

- 2.1 The intent to consider acceptance of any value-added benefits, if such intent exists, must be clearly defined in any competitive bid document released to the market place.
- 2.2 All requirements must be clearly defined as part of the intended purchase in any competitive bid documents to ensure that they are not misinterpreted as value-added.

Appendix C (cont'd.) Value-Added Policy

WRHA Policy Name: Value Added	Policy Number: 40.00.020	Page 2 of 4
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- 2.3 It is recognized that there are value-added incentives that a supplier can include as legitimate proposal enhancements. These enhancements will not be considered until a decision for award has been made based on the award criteria as identified in the competitive bid document.
- 2.4 All value-added benefits that are received must be disclosed.
- 2.5 For ethical and business reasons, these business dealings must be transparent to the public. Standard procurement channels must not be bypassed.

3.0 **DEFINITION:**

- 3.1 Value Added Benefits: Any funds, items or services which directly benefit a Facility/ Program/Agency or WRHA Logistics Services, but may also benefit Board members, WRHA Logistics Services employees, Facility/Program employees, WRHA employees or Physicians and are not identified as a mandatory requirement in the competitive bid document.
- 3.2 Value added benefits include any funds, items or services:
- related to a particular purchase or purchase/service contract;
 - held by entities other than WRHA Logistics Services or the Facilities/ Programs/Agencies that do not directly impact the price of the product(s) being procured under the competitive bid.
- 3.3 These funds, items or services are not a requirement of the competitive bid. As a requirement, they would be defined as part of the purchase rather than value-added.
- 3.4 Supplier Incentives: any product, product credit, cash rebate, early payment discount, electronic funds transfer (EFT) discount, quantity discounts or other discount/incentive which will directly impact the price of the product(s) being procured under the competitive bid. The competitive bid document will identify that bidders are requested to provide any Supplier Incentives as per the definition with their bid submission.

4.0 **PROCEDURE:**

4.1 **Value Added Benefits In Contracting**

- 4.1.1 If value-adds are to be considered for acceptance, the competitive bid document must identify that acceptance will be considered, but only after the decision for award has been made based on the award criteria (pricing, quality, etc.) as identified in the competitive bid document.

Value-Added Policy

WRHA Policy Name: Value Added	Policy Number: 40.00.020	Page 3 of 4
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4.1.2 Specific value-adds can not be defined as this could imply the desire is actually a requirement.

4.1.3 Value-adds that are offered must be disclosed to the following parties and reviewed by all prior to acceptance by WRHA Senior Management:

- Logistics Services;
- Facility/Program/Agency via PRES (or assigned Evaluation Committee).

4.2 Evaluating Bids/Proposals

4.2.1 In evaluating bids, it is essential that the minimum performance standard of goods or services be given prime consideration, followed by price.

4.2.2 Vendor offerings of value-added Benefits will not be disclosed by Logistics Services until an award decision has been made based on quality and pricing.

4.3 Fair Distribution Of Value Added Benefits

4.3.1 Companies shall be informed that where value added benefits are offered, the WRHA prefers that these be of an unrestricted nature.

4.3.2 All unrestricted value added benefits shall be forwarded to WRHA Senior Management by Logistics Services for distribution. WRHA Senior Management shall consider the needs within the region, as well as any ethical considerations in relation to the product, equipment or service, when making allocation decisions.

4.3.3 All restricted cash and equipment value added benefits shall be reviewed by Logistics Services, in consultation with the relevant PRES or assigned Evaluation Committee and a recommendation will be forwarded to Senior Management.

4.3.4 Should the recommendation be to accept a cash value added benefit, then Logistics Services shall instruct the Vendor to ensure that the cheque(s) is made payable to WRHA Finance and forwarded to Logistics Services to coordinate distribution.

4.3.5 Logistics Services will be responsible for ensuring that cash value added benefits are remitted to the WRHA in accordance with the agreed upon contract terms.

Appendix C (cont'd.) Value-Added Policy


WRHA Policy Name: Value Added	Policy Number: 40.00.020	Page 4 of 4
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- 4.3.6 Logistics Services shall maintain a record of all unrestricted and restricted value added benefits.
- 4.3.7 The Director Regional Supply Chain shall report to the Vice President of Finance and Corporate Services and Chief Finance Officer on a monthly basis.
- 4.3.8 The VP of Finance and Corporate Services and Chief Finance Officer will report to WRHA Senior Management as required.
- 4.3.9 The CEO of the WRHA has sole authority to access and authorize the use of value added funds.

5.0 **REFERENCES:**

Policy Contact: *Peggy Maitland, Director, Regional Supply Chain, WRHA
Logistics Services*

Conflict of Interest Policy

 <p>POLICY</p>	WRHA GOVERNED SITES Applicable to programs, departments and services of the WRHA governed and integrated sites		Level: 2A
	Policy Name: Conflict of Interest	Policy Number: 20.10.011	Page: 1 of 3
	Approval Signature: <i>Original signed by b. Postl</i>	Section: HUMAN RESOURCES	
	Date: June 2008	Supersedes: 19 April 2004	

1.0 **PURPOSE:**

- 1.1 Winnipeg Regional Health Authority's (WRHA's) Facilities' Staff and Physicians are expected to achieve and maintain high standards of integrity, impartiality, ethical conduct and vigilance to prevent actual, perceived or potential conflicts of interest.
- 1.2 To provide guidance for Staff in their relationships with third parties and the identification of any actual, perceived or potential conflict of interest situations.
- 1.3 To ensure that principles are developed for the proper handling of actual, perceived or potential conflicts in order to protect the integrity of WRHA Facilities and their Staff to ensure that the public-trust and confidence is maintained.
- 1.4 This policy is intended to supplement the Conflict of Interest Policy applicable to WRHA Facilities' Board Members.

2.0 **DEFINITIONS:**

- 2.1 **Conflict of Interest:** A divergence between the Staff person's and/or their Family's personal, financial or business interests and the Staff person's professional obligations to WRHA Facilities such that an independent observer might reasonably question whether the Staff person's professional actions or decisions are determined by considerations of personal gain, financial or otherwise. This definition extends to actual, potential and perceived conflicts of interest.
- 2.2 **Family:** Includes parent, spouse, common-law spouse, child, siblings, mother-in-law, father-in-law, daughter-in-law, son-in-law, brother-in-law, sister-in-law, grandparent, grandchild, former guardian, fiancé, or any other relative who is or has been residing in the same household as well as step-relationships of the same degree. In addition, common-law relationships, same gender relationships and business partners/associates.
- 2.3 **Personal Gain:** Any item or service which benefits a Staff person or their Family. For example, this includes all forms of gifts, gratuities, favours, tickets, meals, discounts, preferential treatment, etc.

Appendix D (cont'd.) **Conflict of Interest Policy**

WRHA Policy Name: Conflict of Interest	Policy Number: 20.10.011	Page 2 of 3
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- 2.4 **Staff:** All persons employed or contracted by WRHA Facilities as well as members of the medical staff and board members.
- 2.5 **WRHA Facilities:** Facilities or sites within the WRHA that are owned or operated by the WRHA or that are integrated Hospitals (Seven Oaks General Hospital, Grace Hospital, Victoria General Hospital, Concordia Hospital, Deer Lodge Centre, Health Sciences Centre and Misericordia Health Centre).

3.0 **POLICY:**

- 3.1 Staff shall at all times:
 - 3.1.1 Maintain the highest standard of integrity and impartiality.
 - 3.1.2 Act in good faith with a view to the best interests of WRHA Facilities.
 - 3.1.3 Be aware and vigilant of the need to avoid Conflict of Interest situations.
 - 3.1.4 Not use their position with WRHA Facilities for Personal Gain.
 - 3.1.5 Not solicit any Personal Gain regardless of value.
 - 3.1.6 Not use resources or information of WRHA Facilities for Personal Gain.
 - 3.1.7 Not disclose information to a third party that would place it in a position of advantage over its competitors.
- 3.2 Staff shall not accept gifts, gratuities or entertainment from current or prospective vendors or suppliers that may have a real or perceived influence on their objectivity in the performance of his or her duties. This does not preclude the acceptance of gifts, gratuities or entertainment of nominal or insignificant value, which is within the normal standards of business courtesy or protocol and does not compromise or appear to compromise in any way the integrity of the Staff person or WRHA Facilities.
- 3.3 Staff that believe that they may be in a Conflict of Interest situation must disclose that conflict through their supervisor to the responsible Director for determination immediately upon becoming aware of it.
- 3.4 Solicitation of prizes, funds and give-aways from vendors shall only be acceptable for the purposes of raising charitable funds. This solicitation shall not be performed by individuals directly involved in the development of contracts or the selection of vendors for purchases. Vendors shall be informed that their decision regarding participation will not have any influence on procurement decisions.
- 3.5 Persons in breach of this Policy will be dealt with in accordance with applicable policies and procedures including, but not limited to the Progressive Discipline Policy and the Medical Staff Bylaws.
- 3.6 Each Department/Facility is responsible for developing, implementing and enforcing processes and/or guidelines to ensure awareness and compliance with this Policy.
- 3.7 Communication and distribution of this Policy shall form part of the orientation process for all new staff.

Conflict of Interest Policy

WRHA Policy Name: Conflict of Interest	Policy Number: 20.10.011	Page 3 of 3
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4.0 **PROCEDURE:** N/A

5.0 **REFERENCES:**

- 5.1 Manitoba Civil Service Commission; Conflict of Interest Policy for Manitoba Government Employees; June 26, 1996
- 5.2 Treasury Board of Canada Secretariat; Values & Ethics Code for the Public Service, June 19, 2003

Policy Contact: *John VanMassenhoven, Regional Director HR Services, Community Hospitals & HR Legal Counsel*

Appendix E Purchasing Policy

 <p>Winnipeg Regional Health Authority Office régional de la santé de Winnipeg</p> <p>POLICY</p>	Policy Name:	Purchasing	Policy Number	Level	Page
	Approval Signature:	<i>Original signed by B. Postl</i>	30.10.130	1	1 of 3
	Date:	December 17, 2003	Section:	FINANCE	
			Supersedes:	30.10.040 40.00.060	


1.0 PURPOSE:

- 1.1 To provide direction to WRHA facilities and WRHA funded facilities for all Financial Commitments made with WRHA funding, including those made during the Purchasing Transaction Cycle.
- 1.2 To provide direction to WRHA facilities and WRHA funded facilities to ensure the use of fair and ethical methods and an accountable determination of the successful vendor from which to purchase goods, services and equipment with operational or capital funding.

2.0 DEFINITIONS

- 2.1 **Financial Commitment:** Any obligation eventually settled through either cash payment or exchange of equipment, goods or services of equivalent value. Goods, services or equipment ordered for an evaluation period are a Financial Commitment regardless of the dollar value.
- 2.2 **Financial Commitment Value:** Total settlement value of the Financial Commitment over time through cash payment or exchange of goods or services of equivalent value.
- 2.3 **Competitive Bid Process:** A process governed by Canadian competitive bid law whereby bids are solicited and evaluated in accordance with pre-established evaluation criteria.
- 2.4 **Purchase Order:** The method of tracking all Financial Commitments, including authorized/designated forms for authorizing purchases as determined by the site Purchasing Department (examples include standard purchase orders, purchase cards, travel authorization form, stockless ordering associated with a contract).
- 2.5 **Purchasing Transaction Cycle:** The purchasing transaction steps which include authorizing, ordering, expediting, receiving and settlement.
- 2.6 **Exempt or Sole Source Financial Commitments:** For the purposes of this policy, the provisions of the Agreement on Internal Trade (AIT) Annex 502.4, Appendix D (sole source) and Appendix C (other exemptions) shall apply.
- 2.7 **Emergent:** Where an unforeseeable situation of urgency exists and the goods, services or construction cannot be obtained in time by means of open procurement procedures.

Purchasing Policy


 <p>Winnipeg Regional Health Authority Office régional de la santé de Winnipeg</p> <p>POLICY</p>	Policy Name:	Policy Number	Level	Page
	Purchasing	30.10.130	1	2 of 3
	Approval Signature: <i>Original signed by B. Postl</i>	Section: FINANCE		
Date:	December 17, 2003	Supercedes: 30.10.040 40.00.060		

- 2.8 Financial Commitments of the following nature are excluded:
- Operating Agreements pursuant to section 44.1 of *The Regional Health Authorities Act* (CEO's office)
 - Service Purchase Agreements (CEO's office)
 - Physician Remuneration (Medical Staff Office)
 - Independent Contractor Agreements
 - Memorandums of Understanding (CEO's office)
 - Clinical Placement Agreements (CEO's office)
 - Affiliation Agreements (CEO's office)
 - Repayable Award Agreements (CEO's office)
 - Secondments (HR Department – non-physician, Medical Staff Office – physician)
 - Letters of Offer (HR Department)

3.0 POLICY

- 3.1 Each Financial Commitment with a Financial Commitment Value of less than \$5,000 exclusive of taxes requires 1 – 3 verbal quotes prior to purchase. The verbal quotes shall be documented by the designated site Purchasing Department on its site purchasing requisition.
- 3.2 Each Financial Commitment with a Financial Commitment Value of \$5,000 to \$24,999 exclusive of taxes requires three written quotes prior to purchase. Reasons for selection of the successful vendor shall be documented by the designated site Purchasing Department and the written quotes shall be kept with the reasons for selection.
- 3.3 Each Financial Commitment with a Financial Commitment Value of \$25,000 or greater shall be managed by WRHA Logistics Services.
- 3.4 An Exempt or Sole Source Financial Commitment with a value of less than \$25,000 exclusive of taxes shall be exempt from section 3.2.
- 3.5 An Exempt or Sole Source Financial Commitment with a value of \$25,000 or greater may be exempt from the Competitive Bid Process as determined by Logistics Services.
- 3.6 An Emergent situation shall be exempt from section 3.2 excepting capital equipment in which sections 3.1 to 3.2 shall still apply.

Appendix E (cont'd.) Purchasing Policy

 <p>Winnipeg Regional Health Authority / Office régional de la santé de Winnipeg</p> <p>POLICY</p>	Policy Name: <p>Purchasing</p>	Policy Number: <p>30.10.130</p>	Level: <p>1</p>	Page: <p>3 of 3</p>
	Approval Signature: <p><i>Original signed by B. Postl</i></p>	Section: <p>FINANCE</p>		
	Date: <p>December 17, 2003</p>	Supercedes: <p>30.10.040 40.00.060</p>		

- 3.7 All Financial Commitments shall be authorized by the appropriate signing authority in a user department through the use of a purchase order. All authorized Financial Commitments shall be approved for payment by the designated site Purchasing Department. Only Purchasing Departments can process and approve purchase orders for payment. In exceptional circumstances where the designated site Purchasing Department is not available authorization shall be obtained from the on call site senior executive or delegate.
- 3.8 No invoice shall be paid without an appropriately authorized Purchase Order. Unauthorized invoices shall not be settled and shall be returned to the supplier with notification of policy violation.

4.0 **REFERENCES:**

- 4.1 WRHA Policy # 40.000.20 - Value Add
- 4.2 WRHA Policy # 10.00.050 - Delegation of Signing Authority Limits
- 4.3 The Agreement on Internal Trade (Canada) 1995 (www.intrasec.mb.ca)
- 4.4 Manitoba Health Procurement Services
<http://www.gov.mb.ca/gs/psb/tradeagree.html> or
<http://contractscanada.gc.ca/en/biddin-e.htm>

Policy Writer:

Geoff McInnes, WRHA Director, Financial Control HSC Site

Web Version

