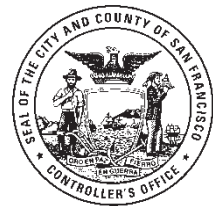


# City and County of San Francisco

Office of the Controller – City Services Auditor

## DEPARTMENT OF PUBLIC HEALTH:

**The Department's Siloed and Decentralized Purchasing Structure Results in Inefficiencies**



March 14, 2013

**OFFICE OF THE CONTROLLER  
CITY SERVICES AUDITOR**

The City Services Auditor Division (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that was approved by voters in November 2003. Charter Appendix F grants CSA broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmark the City to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigate reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

For questions regarding the report, please contact Director of City Audits Tonia Lediju at [Tonia.Lediju@sfgov.org](mailto:Tonia.Lediju@sfgov.org) or 415-554-5393, or CSA at 415-554-7469.

Audit Team: Elisa Sullivan, audit manager  
Kathleen Scoggin, auditor-in-charge  
Mary Hom, associate auditor  
Kate Kaczmarek, associate auditor  
Deric Licko, associate auditor



# City and County of San Francisco

## Office of the Controller - City Services Auditor

Department of Public Health: The Department's Siloed and Decentralized Purchasing Structure Results in Inefficiencies

March 14, 2013

### Purpose of the Audit

The audit evaluated whether the ways in which the Department of Public Health (Public Health) purchases medical supplies can be improved to achieve cost savings. The audit assessed whether Public Health can achieve further cost savings through bulk purchasing and whether the purchasing functions of the department's various hospitals and clinics can be consolidated to reduce costs. However, the analysis of departmentwide purchasing data was limited because the data maintained by Public Health's various purchasing locations cannot be compared.

### Highlights

Public Health manages the hospitals of the City and County of San Francisco (City), monitors and regulates emergency medical services, and oversees a number of primary care, mental health, disease prevention, and jail health clinics. In fiscal year 2011-12 Public Health bought approximately \$38 million in medical supplies at three sites.

Public Health's decentralized and siloed purchasing system has resulted in inconsistent practices and inefficiency. Specifically, the audit found that Public Health:

- Has an organizational structure that has led to an inconsistent application of enhancements to monitoring, reporting, and efficiency of purchasing functions.
- Cannot monitor and analyze medical supply purchases departmentwide or take full advantage of purchasing enhancements to achieve cost savings because the types of invoice details in two purchasing systems significantly differ and cannot be compared. For example, a clinic purchased sharps containers from a vendor through one purchasing system for 39 percent more than the same item could be purchased from a second vendor through another purchasing system.
- Lacks departmentwide purchasing policies and procedures. Laguna Honda Hospital and Rehabilitation Center (LHH), San Francisco General Hospital and Trauma Center (SFGH), and the Population and Behavioral Health Fiscal unit (PBHF) each have their own written purchasing policies and procedures, which are inconsistent with one another.
- Lacks controls to ensure that it receives competitive pricing when purchasing medical supplies.

### Recommendations

The report includes nine recommendations for Public Health to improve its purchasing system, including that the department should:

- Further centralize its purchasing functions.
- Determine what items would be better purchased departmentwide.
- Ensure that all of its medical supply purchasing data is comparable among LHH, PBHF, and SFGH.
- Create a departmentwide purchasing manual.
- Implement a policy to review the cost-effectiveness of purchases.
- Develop written policies and procedures to establish guidelines for when the department should pursue waivers from city purchasing requirements.

**Highlights** (continued)

- Lacks a formal process and established criteria to determine when it should seek waivers from city requirements rather than pay a mark-up to purchase using a city-approved vendor as an intermediary.
- Has not given some clinics access to a list of vendors offering preferred pricing for members of the group purchasing organization to which Public Health belongs. As a result, some clinics may miss opportunities to buy products at lower prices.
- Has a limited ability to analyze historical purchase orders and produce reports because its reporting system can only access 180 days of data.

**Recommendations** (continued)

- Provide all sites involved in vendor selection with group purchasing organization vendor lists.
- Ensure that it properly retains historical purchase order data.

*Copies of the full report may be obtained at:*

*Office of the Controller • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500  
or on the Internet at <http://www.sfgov.org/controller>*



**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ben Rosenfield**  
**Controller**

**Monique Zmuda**  
**Deputy Controller**

March 14, 2013

Health Commission  
101 Grove Street, Room 311  
San Francisco, CA 94102

Ms. Barbara A. Garcia  
Director of Health  
Department of Public Health  
101 Grove Street, Room 308  
San Francisco, CA 94102

Dear commission president and members, and Ms. Garcia:

The Office of the Controller's City Services Auditor Division (CSA) presents its audit report of the Department of Public Health's (Public Health) purchasing of medical supplies. The audit objectives were to determine whether Public Health can achieve further cost savings through bulk purchasing and whether the purchasing functions of the various hospitals and clinics can be consolidated to reduce costs. However, the analysis of departmentwide purchasing data was limited because the types of data differ among Public Health's various purchasing locations and cannot be compared.

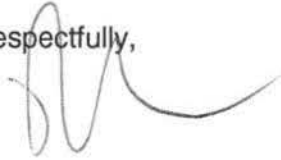
The audit concluded that Public Health should further centralize its purchasing system to achieve increased cost savings. Specifically, the audit found that Public Health:

- Has a decentralized, siloed purchasing structure, which promotes inefficiency in the purchasing function.
- Cannot take full advantage of purchasing enhancements to achieve cost savings because the invoice details that are to be recorded in two purchasing systems significantly differ, so invoice data cannot be compared for departmentwide analysis.
- Lacks departmentwide purchasing policies and procedures.
- Lacks established criteria to determine when to expend staff time seeking waivers from city requirements and when to pay a mark-up to use a city-approved vendor.
- Has not given some clinics access to a list of vendors offering preferred pricing.
- Has a limited ability to analyze historical purchase orders because its reporting system only retains 180 days of purchase order data.

The report includes nine recommendations for Public Health to improve its purchasing of medical supplies. Public Health's response to the report is attached as Appendix C. CSA will work with Public Health to follow up on the status of the recommendations made in this report.

CSA appreciates the assistance and cooperation of Public Health staff during the audit. For questions about the report, please contact me at [Tonia.Lediju@sfgov.org](mailto:Tonia.Lediju@sfgov.org) or 415-554-5393, or CSA at 415-554-7469.

Respectfully,

A handwritten signature in black ink, appearing to be 'Tonia Lediju', written in a cursive style.

Tonia Lediju  
Director of City Audits

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Budget Analyst  
Public Library

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## GLOSSARY OF TERMS

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ADPICS	Advanced Purchasing and Inventory Control System, the former name of the Financial Accounting and Management Information System component used to record purchasing accounting entries; now known as FAMIS Purchasing
CMD	Contract Monitoring Division of the General Services Agency
CSA	Office of the Controller's City Services Auditor Division
City	City and County of San Francisco
City Clinic	San Francisco City Clinic
Controller	Office of the Controller, City and County of San Francisco
FAMIS	Financial Accounting and Management Information System, the City's financial system
FAMIS Purchasing	Component of Financial Accounting and Management Information System used to record purchasing accounting entries; formerly known as ADPICS
GHX	Global Healthcare Exchange, LLC, a healthcare technology and service company and provider of ConnectPlus, a supply-chain software suite
GPO	Group purchasing organization, an organization designed to achieve cost savings for members by pooling purchases and negotiating lower prices from suppliers and distributors
Immunization Clinic	AITC Immunization and Travel Clinic
LHH	Laguna Honda Hospital and Rehabilitation Center
Novation	A health care supply-chain and contracting company that partners with University HealthSystem Consortium
PHP	Population Health and Prevention
PMM	Pathways Materials Management, a purchasing system used at San Francisco General Hospital and Laguna Honda Hospital
PBHF	Population and Behavioral Health Fiscal unit, a unit in the Department of Public Health that is not organized under one of the department's primary divisions, but provides purchasing support for behavioral and community health clinics under two separate Public Health divisions.
OCA	Office of Contract Administration

Public Health	Department of Public Health
SFGH	San Francisco General Hospital and Trauma Center
TB Clinic	Tuberculosis Clinic
UHC	University HealthSystem Consortium, the group purchasing organization, of which Public Health is a member

# INTRODUCTION

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## **Audit Authority**

This audit was conducted under the authority of the Charter of the City and County of San Francisco (City), Section 3.105 and Appendix F, which requires that the City Services Auditor Division (CSA) of the Office of the Controller conduct periodic, comprehensive financial and performance audits of city departments, services, and activities. The Department of Public Health (Public Health) requested an audit of its medical supply purchasing processes. As a result, CSA included this audit in its fiscal year 2012-13 work plan.

## **Background**

*Public Health oversees two hospitals, several community health clinics, and other health programs with an operating budget of \$1.6 billion.*

Public Health manages the City's hospitals, monitors and regulates emergency medical services, and is focused on the preservation, promotion, and protection of the lives, health, and mental health of San Francisco residents. Besides managing the City's two public hospitals, Public Health oversees a number of primary care, mental health, disease prevention, and jail health clinics and other public health programs. In fiscal year 2011-12 the department's total operating budget was \$1.6 billion. Public Health has five major divisions:

- San Francisco General Hospital and Trauma Center (SFGH)
- Laguna Honda Hospital and Rehabilitation Center (LHH)
- Jail Health
- Community Health Programs, which includes the primary care and behavioral health clinics
- Population Health and Prevention (PHP), which includes the Tuberculosis Clinic (TB Clinic), AITC Immunization and Travel Clinic (Immunization Clinic), and San Francisco City Clinic (City Clinic), which provides services related to sexually transmitted diseases.

See Appendix A for Public Health's organization chart.

*Purchasing staff order medical supplies based on requests for purchases submitted by clinical or*

Public Health's purchases of medical supplies begin with clinical or hospital staff completing a requisition form. Most requisitions are created electronically. In some cases, the clinical and hospital staff is responsible for

*hospital staff.*

obtaining price quotes and selecting an approved vendor. The purchasing staff then verifies that funds are available for the purchase, creates the purchase order, and places the order with the vendor.

*Three Public Health sites purchase medical supplies for all five of its divisions.*

Public Health has three sites that process medical supply purchases for its programs and clinical locations as follows.

- SFGH handles the largest volume of medical supply purchases and purchases for:
  - SFGH.
  - Jail Health, including nine jail health locations, two of which have dental clinics.
  - Community Oriented Primary Care unit of the Community Health Programs division, including 15 primary care clinics, five of which have dental clinics.
- LHH purchases for itself.
- The Population and Behavioral Health Fiscal unit (PBHF)<sup>1</sup> purchases for:
  - Community Behavioral Health Services unit of the Community Health Programs division, which includes 17 mental health and substance abuse clinics.
  - Immunization Clinic under PHP.
  - City Clinic under PHP.
  - TB Clinic<sup>2</sup> under PHP.

*SFGH purchases the largest share of medical supplies.*

Exhibit 1 shows Public Health's total medical supplies expenditures in fiscal years 2007-08 through 2011-12. SFGH places orders for 88 percent of the value of the department's medical supply purchases for itself and on behalf of more than half of the clinical sites.

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<sup>1</sup> Because it primarily supports units in the Population Health and Prevention and Community Health Programs divisions, the unit is referred to in this report as the Population and Behavioral Health Fiscal unit or PBHF. However, the fiscal unit located at 1380 Howard is not under any of Public Health's primary organizational divisions and has no specific name.

<sup>2</sup> SFGH performs some purchasing for the City Clinic and TB Clinic.

**EXHIBIT 1** Department of Public Health Medical Supplies Expenditures by Purchasing Site  
Fiscal Years 2007-08 Through 2011-12 *(in thousands of dollars)*

Purchasing Site	2007-08	2008-09	2009-10	2010-11	2011-12	Number of Sites Purchased For
San Francisco General Hospital	\$33,861 (89%)	\$30,963 (89%)	\$31,975 (89%)	\$33,632 (89%)	\$33,384 (88%)	25 (54%)
Laguna Honda Hospital	3,164 (9%)	2,802 (8%)	3,101 (9%)	3,552 (9%)	3,620 (10%)	1 (2%)
Population and Behavioral Health Fiscal unit	860 (2%)	970 (3%)	580 (2%)	568 (2%)	765 (2%)	20 (44%)
<b>Total</b>	<b>\$37,885</b>	<b>\$34,735</b>	<b>\$35,656</b>	<b>\$37,752</b>	<b>\$37,769</b>	<b>46</b>

Source: Interviews with department purchasing staff and auditor's analysis of FAMIS data for expenditures on medical supplies.<sup>3</sup>

*Public Health tries to control costs by purchasing through a group purchasing organization.*

According to purchasing staff, Public Health purchases 85-90 percent of its medical and surgical supplies through a group purchasing organization (GPO). GPOs achieve cost savings for their members by pooling purchases and negotiating lower prices from suppliers and distributors. Public Health became a member of the University HealthSystem Consortium (UHC) GPO in 1997. UHC partners with Novation, a healthcare supply-chain and contracting company. In 1997 the City's Board of Supervisors amended the San Francisco Administrative Code to authorize Public Health to execute purchase orders with suppliers of goods and materials selected by UHC.

*Public Health uses several systems to process its purchases.*

Public Health has contracted with Global Healthcare Exchange, LLC, (GHX) for software that aids in supply-chain management. The GHX ConnectPlus software allows SFGH and LHH to make a single link to an electronic medical supply marketplace rather than separate links to each vendor and to increase the number of purchasing transactions conducted electronically rather than by fax or phone. Additionally, GHX ConnectPlus has built-in, automated controls to check accuracy of pricing, and enhanced reporting

<sup>3</sup> Medical supplies include anesthetic materials, chargeable Medicare supplies, dental/medical supplies, intravenous solutions, laboratory supplies, minor medical equipment, radiology materials and supplies, veterinary supplies, institutional linen, cleaning supplies, and other hospital, clinic, and laboratory supplies.

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Structure Results in Inefficiencies**

features, which facilitate data analysis that can lead to improved cost savings and efficiency.

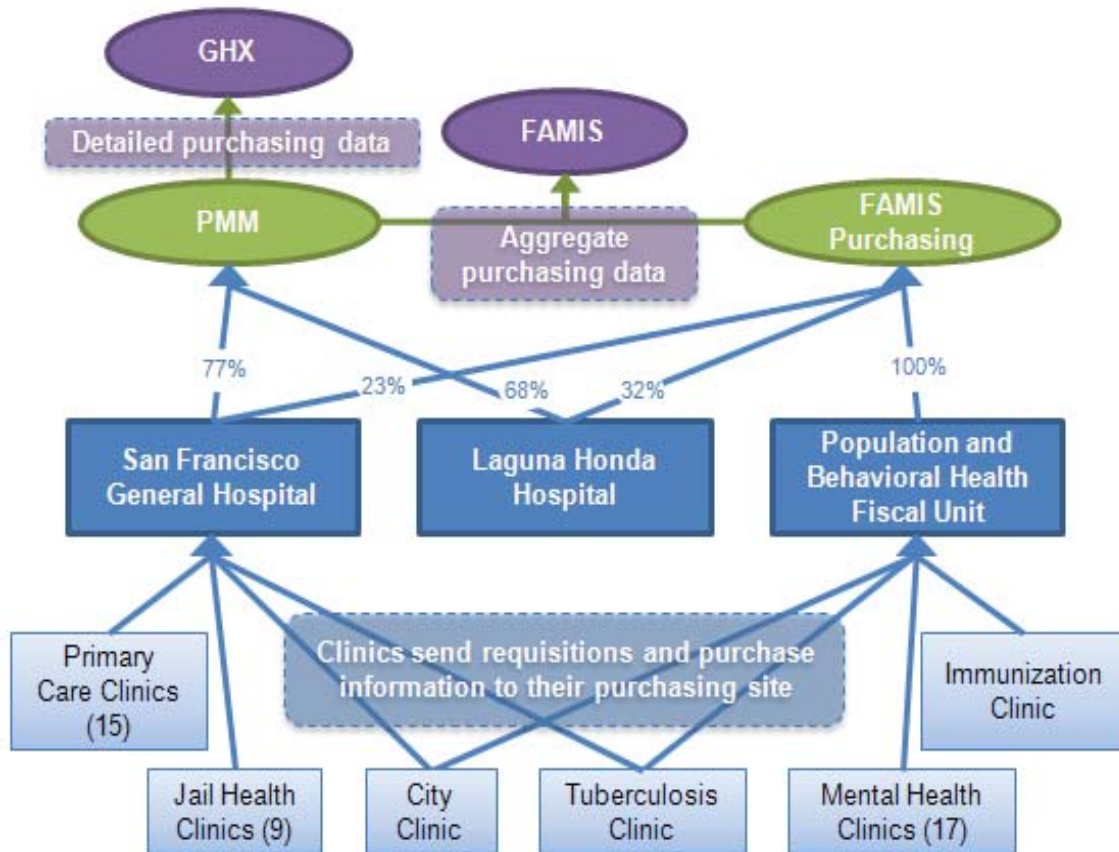
GHX ConnectPlus overlays a purchasing system used at SFGH and LHH called Pathways Materials Management (PMM). PMM helps streamline processes, automate ordering, and manage inventory. SFGH and LHH process 77 percent and 68 percent, respectively, of their medical supply purchases through PMM and process the remainder of their purchases through a component of the City's accounting system, Financial Accounting and Management Information System (FAMIS). FAMIS and its purchasing component, FAMIS Purchasing, facilitate financial management and reporting for the City.<sup>4</sup> PBHF has no access to PMM and GHX ConnectPlus and processes all of its purchases directly through FAMIS Purchasing.

Exhibit 2 demonstrates the complex flow of purchasing from the clinic level through to the department and City's data systems.

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<sup>4</sup> FAMIS Purchasing is used to record accounting entries related to purchases. It was previously known as Advanced Purchasing and Inventory Control System (ADPICS).

**EXHIBIT 2** Department of Public Health  
 Flow of Purchasing Transaction Data



Note: FAMIS Purchasing was formerly known as ADPICS.

Source: Interviews with purchasing site management and clinic staff.

*The SFGH purchasing location conducts some monitoring and oversight for its own and LHH's purchases.*

In addition to being the largest center for processing medical supply purchases, SFGH performs some monitoring and analysis of medical supply purchasing for purchases made through SFGH and LHH. As part of its contract with GHX, SFGH receives a quarterly analysis of whether SFGH and LHH are taking optimal advantage of bulk-pricing tiers in their contracts with Novation vendors. GHX's analysis is limited to purchasing data in PMM, which feeds data into the GHX software. Because PBHF lacks access to PMM, the analysis excludes all PBHF purchases.

*San Francisco has oversight agencies for vendor compliance with city requirements and all purchases of more than \$10,000.*

The Administrative Code includes several purchasing-related provisions, and the Office of Contract Administration (OCA) and Contract Monitoring Division (CMD) of the General Services Agency are the oversight agencies for implementing those provisions. For contracts or purchases of more than \$10,000, OCA buys most products and services on behalf of city departments. OCA oversees purchases by using competitive bidding procedures to select vendors that comply with city requirements. CMD oversees vendors' compliance with certain city requirements such as ensuring that vendors that do business with the City have a policy of nondiscrimination against protected peoples in their human resources practices and provide equal benefits to their employees' domestic partners and spouses. For purchases under \$10,000, departments have the authority to initiate purchases without OCA oversight. For purchases made through its GPO membership, OCA has effectively delegated responsibility for ensuring competitive pricing to Public Health.

**Objectives**

The primary objective of this audit was to determine whether the structure of Public Health's purchasing of medical supplies could be improved to achieve cost savings.

Specifically, the audit evaluated whether:

1. Public Health can achieve further cost savings through bulk purchasing.
2. The purchasing functions of the various hospitals and clinics can be consolidated to reduce costs.

**Scope and Methodology**

The audit focused on Public Health's purchasing of medical supplies and excluded other purchases such as those of capital items, pharmaceuticals, office and janitorial supplies, and service contracts.

The audit faced a scope limitation when attempting analysis of departmentwide purchasing data because data maintained at Public Health's various purchasing locations is not comparable (see finding 1.2).

To conduct the audit, CSA:



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The Department's Siloed and Decentralized Purchasing  
Structure Results in Inefficiencies**

- Interviewed Public Health staff about purchasing procedures and internal controls.
- Conducted a trend analysis of Public Health medical supply purchases from fiscal year 2007-08 through 2011-12.
- Reviewed Public Health, OCA, and CMD purchasing policies and procedures.
- Conducted a benchmarking survey of 25 multisite health care systems.
- Surveyed 35 employees responsible for purchasing at Public Health primary care, jail health, and behavioral health clinics and the City Clinic, TB Clinic, and Immunization Clinic. Of the 35 questionnaires distributed, 26 (74 percent) were completed and returned.
- Reviewed two clinical site listings of purchases made outside of Novation contracts to assess whether the purchases could have been made through a Novation contract.

**Statement of Auditing Standards**

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

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## CHAPTER 1 –Public Health's Siloed Organizational Structure Inhibits Efficiency in Purchasing

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### Summary

Although the Department of Public Health (Public Health) does have some degree of centralization in its purchasing function, its decentralized and siloed organizational structure has resulted in inconsistencies across its three purchasing locations in practices, policies and procedures, data analysis, and application of enhancements to monitoring, reporting, and efficiency of purchasing functions.

Public Health misses the opportunity to achieve cost savings from departmentwide bulk purchases because invoice details in two purchasing systems differ enough that the data is not comparable and cannot be aggregated to analyze medical supply purchases departmentwide.

Public Health lacks departmentwide purchasing policies and procedures, resulting in inconsistent practices among divisions. Without consistent procedures, employees at some clinics waste time on purchasing tasks not required by other divisions.

Further centralization of the purchasing function would allow the department to analyze its medical supply purchases to identify opportunities for savings through departmentwide rather than site-specific purchases, create consistency in requisition and purchasing processes, and lower the risk of duplicating efforts of purchasing staff across divisions.

### Finding 1.1

**Inefficiencies in purchasing resulting from inconsistent practices have been promoted by the department's decentralized and siloed purchasing structure.**

*Public Health's purchasing is highly siloed, resulting in inconsistent practices that lead to inefficiencies.*

Public Health's purchasing structure is partially decentralized and highly siloed so that management in each of its three purchasing locations independently creates and implements purchasing procedures that differ significantly. As a result, the department has not

taken full advantage of efficiency-improving measures.

Purchasing of medical supplies for the department's 44 clinics has been centralized into either the SFGH (24 clinics) or PBHF (20 clinics) purchasing locations. However, those locations, along with LHH, report that they operate with a high degree of independence. This has led to the department's inability to monitor purchases departmentwide due to differing data systems and inconsistent policies and procedures that may require some staff to perform unnecessary functions. (See finding 1.2 regarding data differences and finding 1.3 for policies and procedure differences). Purchasing managers at each site also indicated that their sites functioned as silos.

A siloed organizational unit has little or no communication with other units, and, as a result, is unaware of procedures, controls, and tools used by other units. Public Health's chief financial officer acknowledges that the siloed work environment is an issue that department management has tried to address over the last couple of years. However, fully addressing the issues caused by siloed operations requires a shift in organizational culture that may be difficult to achieve. If the purchasing units continue to operate as silos, the department risks continuing to miss opportunities to improve efficiency and continuing to encounter obstacles to departmentwide purchasing monitoring. At Public Health, the fact that purchasing units operate in silos prohibits efficiency-improving measures implemented by one site from being implemented in all locations.

*The department's decentralized, siloed structure results in lack of sharing of cost-saving and efficiency-improving measures.*

For instance, SFGH has implemented improvements to its purchasing procedures, but because each purchasing site operates in isolation, those improvements have not always carried over to the other purchasing units. SFGH's improvements include:

- Implementation of automated verification of purchasing prices against contract negotiated prices through the GHX software.
- Online rather than manual requisition forms for clinic purchasing staff.
- Centralized vendor selection, eliminating the need for front-line clinic staff to obtain price

quotes.

- Optimization of tier-pricing structures in purchasing contracts through quarterly analysis provided by GHX.
- Purchasing data that is in an accessible format, making it conducive to monitoring and analysis.

Although the department's purchasing function is not totally decentralized, the existence of three purchasing sites creates a risk of duplicative and inefficient efforts. One central purchasing location would eliminate that risk. SFGH has many attributes that make it a strong candidate for hosting a centralized purchasing function for Public Health.

*SFGH is the optimal site for centralizing the purchasing function.*

As stated in the Introduction, SFGH processes the largest share of medical supply purchases for the largest number of sites. In fiscal year 2011-12 Public Health spent \$37.8 million on medical supplies, but SFGH processed 88 percent of that value on behalf of more than 50 percent of Public Health's healthcare locations. Also, SFGH performs some central monitoring and analysis of medical supply purchasing for purchases made through SFGH and LHH through its contract with GHX.

Exhibit 3 shows the presence or absence of attributes of the department's medical supply purchasing function at each of the three purchasing sites, demonstrating that SFGH is the site best equipped for centralized purchasing.

**EXHIBIT 3 Purchasing Capabilities at Department of Public Health  
Purchasing Sites**

Purchasing Capabilities	San Francisco General Hospital	Laguna Honda Hospital	Population and Behavioral Health Fiscal unit
Streamlined and automatic purchases through PMM <sup>a</sup>	Yes	Yes	No
Access to GHX ConnectPlus <sup>b</sup> with its enhanced controls and reports	Yes	Yes	No
Trained to use GHX software	Yes	No	No
Reviews GHX quarterly analyses for price tier optimization of contracts <sup>b</sup>	Yes	No <i>Performed by SFGH on behalf of LHH</i>	No
Practices in place to purchase for off-site clinics	Yes	No <i>LHH does not purchase for offsite clinics, so has no procedures related to vendor selection, distribution, or requisitions for offsite clinics.</i>	Yes
Centralized vendor selection for clinics	Yes		No
Distribution infrastructure in place	Yes		No
Online rather than manual requisition forms for clinics	Yes		No

<sup>a</sup> PMM is Pathways Material Management, the purchasing and inventory system used by SFGH and LHH.  
<sup>b</sup> GHX is Global Healthcare Exchange, LLC. SFGH has a contract with GHX to supply GHX ConnectPlus, which is supply-chain software that overlays and enhances PMM with improved controls and reporting functions. Also, GHX analyzes quarterly purchasing data to recommend how to optimize bulk purchasing tier pricing structures in Public Health's contracts with Novation vendors.

Source: Interviews with department purchasing staff.

*The siloed operational culture results from a funding-centered historical approach to organizational structure.*

According to Public Health, the department historically determined its organizational divisions by funding sources rather than function. For example, clinics supported primarily by patient-centered insurance reimbursements and service fees typically were not placed in the same division as clinics supported by grants. Also, administrative and support functions were decentralized. This historical approach led to duplicate administrative units, such as purchasing units, supporting each division.

*Comparable health systems have greater centralization of purchasing than Public Health.*

Of the 23 health institutions that manage multiple sites surveyed for the audit, 17 (74 percent) indicate that their purchasing is centralized. Only 2 surveyed institutions indicate that their purchasing structure is similar to Public Health's, that is, purchasing for some sites is centralized

while other sites process their own purchases.

**Recommendation**

1. The Department of Public Health should move all of its purchasing functions to the San Francisco General Hospital purchasing location. By doing so, the department can monitor its purchasing departmentwide, make more efficient use of resources, avoid duplication of efforts due to purchasing functions being performed at multiple sites, and reduce the risk of future divergence of policies and procedures and lack of oversight.

**Finding 1.2**

**Public Health cannot take advantage of purchasing enhancements to achieve cost savings because invoice details in two purchasing systems significantly differ and cannot be compared to analyze medical supply purchases departmentwide.**

*Public Health's use of FAMIS Purchasing rather than PMM prevents it from taking advantage of improvements in monitoring that result in cost savings.*

Public Health's use of FAMIS Purchasing rather than PMM<sup>5</sup> for 25 percent of its purchases, or \$9.6 million during fiscal year 2011-12, prohibits the department from taking full advantage of improvements to monitoring of purchases through GHX that would result in cost savings. GHX ConnectPlus pulls data from PMM but is incompatible with FAMIS Purchasing. As a result, and as noted in Finding 1.1, some of the department's sites miss out on the enhancements the GHX software provides as well as the centralized tier-optimization analysis performed at SFGH through its GHX contract.

For example, the TB Clinic (part of PBHF) purchased 80 sharps containers from a non-Novation vendor for \$4.89 per unit (or a total of \$391.20), while the same item could have been purchased through a Novation vendor for 39 percent less (\$2.96 per unit or a total of \$236.80). The TB Clinic purchase was made through FAMIS Purchasing, and thus would not be included in the GHX reports.

GHX has built-in, automated controls to check accuracy of pricing and generates risk reports that highlight inefficiencies. GHX also provides a quarterly analysis of

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<sup>5</sup> SFGH is currently working in collaboration with the City Performance unit of the City Service Auditor to maximize the portion of its purchases that it processes through PMM.

the optimal tier-pricing structures in purchasing contracts. Public Health cannot take advantage of these enhanced controls for purchases processed outside of PMM because FAMIS Purchasing medical supply data is less detailed than, and thus not comparable with, the PMM medical supply purchasing data. For SFGH and LHH, increasing the portion of purchases that go through PMM is a matter of programming additional inventory items into the system. However, PBHF has no access to PMM, so it processes all of its purchases through FAMIS Purchasing.

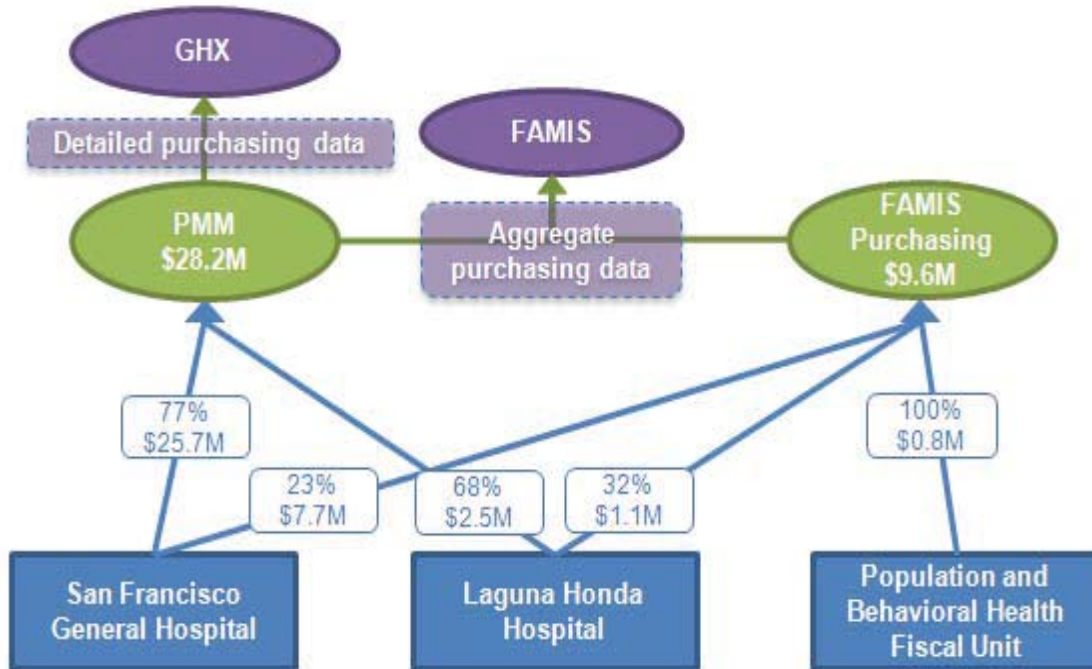
*Public Health processes 25 percent of purchases through FAMIS Purchasing and 75 percent through PMM.*

Although the department ultimately records aggregated purchasing data from all of its purchasing sites in FAMIS, Public Health sites use two different systems to process its purchasing transactions. Specifically, PBHF records all of its medical supply purchases directly through FAMIS Purchasing. In contrast, as stated above, SFGH and LHH record 77 and 68 percent, respectively, of their purchases through PMM, the purchasing system that interfaces with the GHX ConnectPlus software. The remaining portion is processed through FAMIS Purchasing.

In aggregate, Public Health processes 25 percent of purchases through FAMIS Purchasing and 75 percent through PMM. This indicates that approximately \$9.6 million in purchases during fiscal year 2011-12 processed through FAMIS Purchasing was not analyzed through GHX for tier optimization and automated price checks. Exhibit 4 provides an overview of the flow of purchasing data at Public Health and the proportion of purchasing processed through the two systems.



**EXHIBIT 4** Proportion of Department of Public Health Purchasing Data Captured by Its Two Data Systems



Note: FAMIS Purchasing was formerly known as ADPICS.

Source: Interviews with purchasing site management and clinic staff.

*Because of data that cannot be compared, it is nearly impossible to assess potential cost savings from departmentwide bulk purchasing.*

The two purchasing systems serve different purposes and, consequently, contain different, incomparable data. FAMIS Purchasing records accounting entries to facilitate financial management and reporting which does not require detailed transaction data. PMM's purpose is to streamline and automate purchasing transactions. Consequently, PMM contains details of individual items on a purchase order. In contrast, FAMIS Purchasing data is at a summary level and does not contain the individual items purchased. As a result, FAMIS Purchasing data cannot be compared with PMM data. Due to the incomparable data, CSA and Public Health cannot analyze purchases departmentwide, and Public Health cannot take advantage of the enhancements through GHX.

The department's inability to aggregate comparable data for all its purchases prevents it from assessing the cost-

savings it could achieve through departmentwide purchases. Currently, Public Health does not make medical supply purchases departmentwide. Instead, all its purchases are specific to each site. In surveying 23 other multisite healthcare systems, the audit found that:

- 9 (39 percent) purchase systemwide rather than at the site level.
- 8 (35 percent) purchase all items at the site level.
- 6 (26 percent) purchase some items systemwide and others at the site level.

If Public Health could analyze purchases departmentwide, it could assess the benefit of departmentwide versus site-specific purchases.

In fiscal year 2011-12, PBHF processed \$765,000 of purchases on behalf of 20 clinics. However, Public Health already has a tool that could facilitate getting medical supply purchases for those clinics into PMM. SFGH has implemented a Web-based requisition form that clinical staff uses to request purchases through SFGH. SFGH staff then makes the purchases and records them in PMM. Clinic sites that make purchases through PBHF could send their purchase requests directly to SFGH using the same online requisition form.

## **Recommendations**

The Department of Public Health should:

2. Ensure that all of its medical supply purchasing data is comparable by entering all purchasing data into the Pathways Materials Management purchasing system to take advantage of Global Healthcare Exchange (GHX) purchasing enhancements.
3. Analyze its purchasing data to determine what purchases would be better made departmentwide rather than by site.

**Finding 1.3**

**Public Health lacks departmentwide purchasing policies and procedures.**

*Purchasing policies and procedures are inconsistent across divisions.*

Although LHH, SFGH, and PBHF have written purchasing policies and procedures, they are inconsistent with one another, and there are no departmentwide purchasing policies and procedures. As a result, the units' purchasing processes are inconsistent. The inconsistent policies result in purchasing staff in some locations spending time on tasks not required by other, larger divisions. For example, some sites obtain more price quotes than other sites for purchases greater than \$2,500 but less than \$10,000. Specifically, SFGH and LHH obtain one quote, regardless of whether or not the purchase is from a Novation vendor. In contrast, the City Clinic obtains three quotes, regardless of whether or not the purchase is from a Novation vendor, and the Immunization Clinic obtains three quotes, but only when using a non-Novation vendor. Public Health staff stated that obtaining three price quotes can be time-consuming, requiring verification that the quote is from a city-approved vendor.

Exhibit 5 shows differences among the three purchasing policies and procedures manuals at Public Health, demonstrating that LHH has the most comprehensive policies and procedures.

**EXHIBIT 5 Comparison of Department of Public Health Purchasing Policies and Procedures**

Policies	San Francisco General Hospital	Laguna Honda Hospital	Population and Behavioral Health Fiscal unit
Mission/Goals	Included	Included	Included
Step-by-Step Purchasing Procedures	Not Included	Included	Included
Flow Chart of Purchasing Procedures	Not Included	Not Included	Included
Purchasing From a Novation Vendor	Not Included	Included	Not Included*
Quotes for Purchases	Not Included	Included <i>(2 recommended if less than \$10,000)</i>	Included <i>(3 required if more than \$2,500 and less than \$10,000)</i>
Waivers From City Purchasing Requirements	Not Included	Not Included	Not Included

Note: \*The unit reports that it is revising its policies and procedures to include Novation purchases.

Source: Auditor's analysis of policies and procedures manuals.

Without consistent departmentwide purchasing policies and procedures, some clinics or sites may waste staff time on unneeded steps in the purchasing process while others omit or shortcut steps that should be required.

According to the U.S. Government Accountability Office's *Standards for Internal Controls*, appropriate documentation of transactions and internal controls should be in administrative policies or operating manuals, and all documentation should be properly managed and maintained.

**Recommendation**

- The Department of Public Health should create a departmentwide purchasing policies and procedures manual.

## CHAPTER 2 – Public Health Should Improve Its Controls Over Competitive Pricing

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### Summary

Public Health has taken measures to reduce the costs of its medical supplies, but should improve its controls to ensure that it receives competitive pricing. Due to Public Health's Group Purchasing Organization (GPO) membership, the Office of Contract Administration (OCA) has effectively delegated its usual oversight of competitive bidding for purchases of more than \$10,000 to the department. However, Public Health lacks its own controls to ensure that the pricing offered through the GPO is competitive with other avenues for medical supply purchasing.

Public Health may be expending needless staff time or overpaying for certain purchases because it lacks criteria to determine when to pursue waivers from city purchasing requirements. Public Health has no established criteria for determining when it would be more cost-effective to spend staff time pursuing the waivers or to pay the higher price to a city-approved vendor acting as an intermediary.

For the Public Health clinics that select vendors for some or all of their purchases, the department may not receive the lowest available price. These clinics lack access to lists of Novation vendors, which inhibits their ability to choose Novation vendors and to ensure that they receive Novation pricing rather than standard pricing.

The GHX software is Public Health's primary tool for monitoring and analyzing its purchasing of medical supplies. However, limitations in the GHX software and Public Health's lack of procedures to extract and retain historical GHX purchase order data inhibit the department's ability to analyze purchasing over time.

### Finding 2.1

**Public Health lacks controls to ensure that it buys medical supplies at competitive prices.**

Public Health cannot be assured that it is not overpaying

for medical supplies because it has no controls to ensure that its Novation contracts are competitive with other purchasing options.

OCA uses competitive bidding procedures to select vendors, but this process does not apply to Public Health for Novation purchases. Because Novation chooses product vendors based on a competitive process, OCA has effectively delegated its competitive pricing oversight for purchases from Novation vendors to Public Health. However, the department has no controls to ensure that the prices it receives through the GPO are competitive with prices it might receive through other methods of purchasing. Furthermore, a recent report issued by the United States Government Accounting Office notes that members of Congress have raised questions about the extent to which GPOs negotiate lower prices for health care providers.

*Public Health purchases most medical supplies from Novation vendors, which are not subject to the OCA's competitive processes.*

According to Public Health staff, SFGH and LHH purchase approximately 85 and 90 percent, respectively, of their medical supplies from Novation vendors. In fiscal year 2011-12 SFGH and LHH accounted for 98 percent (\$37 million) of Public Health's medical supply purchases.

The Administrative Code, Section 15.104, authorizes the director of health to establish agreements and execute purchase orders with vendors of goods and materials selected by the University HealthSystems Consortium (UHC). UHC partners with Novation, a healthcare supply-chain and contracting company. Both Public Health and OCA interpret this authorization as exempting Public Health from OCA's purchasing requirements for items purchased from Novation vendors.

*Public Health tries to ensure that it maximizes Novation contracts.*

Although Public Health does not assess price competition of Novation vendors with non-Novation vendors, it does try to ensure that it maximizes bulk purchasing price tiers within its Novation contracts. SFGH, through its contract with GHX, analyzes tier eligibility based on data in the GHX software to assess whether it is taking full advantage of the pricing tiers in Public Health's Novation contracts each quarter. (See finding 1.2 regarding the limitations on data subject to this analysis.) SFGH anticipates also using SpendLink, a

free tool from Novation that analyzes spending and identifies savings opportunities as they relate to tiers. However, these analyses do not and will not consider pricing of medical supplies individually or compare pricing in Novation contracts to pricing that might be available to the department from other sources.

Public Health also uses a contractor, MDBuyline, to analyze quotes for capital purchases. Although MDBuyline can analyze purchase prices for medical supplies, the department does not use that capability. According to Public Health, it does not take advantage of this because it lacks the staff time that would be needed to coordinate the service and analysis.

Without controls to ensure that the City is receiving the lowest price for medical supply purchases, Public Health risks overpaying for medical supplies.

**Recommendation**

5. The Department of Public Health should implement a policy to review, at least quarterly, the cost-effectiveness of group purchasing organization purchases considered exempt from the requirements of the Office of Contract Administration.

**Finding 2.2**

**Public Health lacks established criteria to determine when it should seek waivers from city purchasing requirements rather than pay a mark-up to purchase from a city-approved vendor as an intermediary.**

*Public Health is inconsistent in seeking waivers from city purchasing requirements.*

OCA and the General Services Agency's Contract Monitoring Division (CMD) have conflicting mandates regarding purchasing that can provide departments contradictory guidelines for selecting vendors. These contradictory guidelines put Public Health in a position where it must choose between applying for waivers from city purchasing requirements or purchasing goods at a mark-up from an established city-approved vendor acting as an intermediary. None of Public Health's three purchasing sites have established guidelines for making this choice or written policies and procedures related to applying for OCA and CMD waivers (see finding 1.3). SFGH purchasing staff expressed varying and



sometimes conflicting criteria for making the decision, including:

- Always pursue waivers, but use an intermediary to address time-urgent needs while waiting for waivers to be approved.
- The cost of mark-ups.
- The nature of the items purchased.

*City departments generally must purchase from city-approved vendors, but can apply for waivers to purchase from vendors that have not met city requirements.*

As stated in the Introduction, citywide policies and mandates require departments to ensure that they obtain multiple price quotes for large purchases and purchase only from vendors that are city-approved, meaning they have met the City's various vendor requirements. A city-approved vendor must, for example, submit documentation to CMD<sup>6</sup> demonstrating that the vendor does not discriminate against protected groups in its employment practices and that it offers the same benefits to its employees' domestic partners as it does to its employees' spouses. To purchase items from a vendor that is not certified as compliant with these requirements, departments can pursue a waiver under certain conditions, such as when purchasing an item that is only available from a single source, needed to serve a substantial public interest, or part of a bulk purchasing arrangement.

For contracts of more than \$10,000, departments must obtain multiple price quotes and submit them to OCA for approval. Departments can also pursue a waiver from this requirement under certain conditions, such as when an item is only available from a single source or is a specialty item that has no acceptable substitute. In both cases, the department must make a good faith effort to bring the vendor into compliance and get it certified as a city-approved vendor. Only if the vendor cannot be brought into compliance can the department apply for a waiver.

The alternative to the waiver process is to use an existing city-approved vendor as an intermediary that purchases items from the original supplier and then resells them to Public Health at higher prices. According

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<sup>6</sup> Administering compliance with these requirements was formerly the responsibility of the City's Human Rights Commission.



*As an alternative to the waiver process, Public Health sometimes buys from vendors who are not city-approved by paying a mark-up to an approved vendor.*

to SFGH staff, the mark-up paid by the hospital is typically around 8 percent, but varies from 3.75 to 15 percent. Depending on the value of the purchase, this mark-up can ultimately cost the department less than the value of the staff hours spent seeking the CMD and OCA waivers. The average hourly rate (including benefits) of SFGH purchasing staff is about \$50 and the SFGH purchasing manager reported that the typical waiver took 15-20 hours (a cost of \$750-1,000) of staff time to process. One invoice at SFGH for \$788.59 for supplies provided at a markup from a city-approved vendor acting as an intermediary resulted in an additional charge of \$63.08, or \$687-937 less than the potential cost of processing waivers.

Also, the waiver process is lengthy. LHH and SFGH purchasing managers stated that the process took at least two, and sometimes several, months to receive the waivers. OCA and CMD staff responsible for processing the waivers confirmed that the waivers typically must go through several levels of review. According to Public Health staff, some purchases cannot wait for the complete waiver process because the hospital needs the items urgently.

*OCA and CMD's conflicting mandates make it difficult for the department to operate efficiently and have a consistent purchasing policy.*

According to OCA, it prefers that departments purchase an item from a city-approved third party rather than pursue a waiver and, according to CMD, departments should purchase items from a compliant vendor, if one is available, even if it costs more. However, OCA's procedures are designed to ensure that the City saves money through competitive pricing while CMD's oversight focuses on vendors' compliance with equality requirements. OCA confirmed that its and CMD's mandates can cause departments to have conflicting guidelines for vendor selection.

Given these conflicting mandates and the practices that exist, SFGH may be pursuing waiver requests unnecessarily, especially for low-value items. In some cases, department staff may be spending time to bring a vendor into compliance or to obtain waivers when the item could be purchased from a third-party vendor at an overall lower cost. In other cases, Public Health may be overpaying for items that could be obtained directly from a manufacturer without paying a mark-up if a waiver was

approved.

**Recommendation**

6. The Department of Public Health should develop written policies and procedures to guide staff in deciding when to pursue waivers from the Office of Contract Administration and Contract Monitoring Division. The criteria should consider the clinical need for the item, urgency of the need, cost of mark-up, and overhead costs of applying for the waivers.

**Finding 2.3**

**Some clinics do not have access to a list of Novation vendors.**

*Three clinics knew of only a few or no Novation vendors.*

Some Public Health clinics risk overpaying for purchases because they do not have enough information to select Novation vendors and request Novation's negotiated discount pricing. Public Health purchases from Novation vendors to achieve cost savings through group purchasing power. Because units of the department lack a list of all Novation vendors, some clinics may be missing opportunities to save money by buying from a Novation vendor or may be unaware that they are purchasing from a Novation vendor and, as a result, do not request the lower Novation pricing.

Personnel at the TB Clinic, Immunization Clinic, and City Clinic are responsible for selecting vendors for some of their medical supply purchases. Immunization Clinic and City Clinic staff reported knowing the names of only a few Novation vendors and TB Clinic employees reported that they were unaware of any Novation vendors. This is the case because the department did not provide these employees with a list of Novation vendors.

According to PBHF staff, Novation selects vendors based on a competitive bidding process and frequently analyzes market prices. Because of Novation's buying power, it can negotiate low prices with vendors and offer discounts on medical supplies to its many clients. Therefore, it is optimal for Public Health purchasers to have access to a list of Novation vendors, which may offer products at the lowest price.

The audit further analyzed purchases made by two

clinics from non-Novation vendors and found evidence that some supplies could have been purchased from a Novation vendor instead. For example, the City Clinic purchased Metronidazole 500 milligram tablets from a non-Novation vendor for \$1.25 each, although the item is available from a Novation vendor for 57 percent less (\$0.54 each). As described in Finding 1.2, the TB Clinic purchased 80 sharps containers from a non-Novation vendor for \$4.89 per unit (or a total of \$391.20) while the same item could have been purchased through a Novation vendor for 39 percent less (\$2.96 per unit or a total of \$236.80). An SFGH employee also indicated that while placing an order with a Novation vendor, the vendor mentioned having recently sold the same item to another Public Health purchaser who did not request the Novation price.

**Recommendation**

7. The Department of Public Health should provide all sites that select vendors with lists of Novation vendors, and require clinic purchasing staff to use Novation vendors when lower prices can be obtained.

**Finding 2.4**

**GHX only retains 180 days of purchase order data, which limits Public Health's ability to analyze historical purchase orders and produce reports.**

According to SFGH, GHX can only retrieve 180 days of purchase order data, on a rolling-forward basis, due to GHX's server storage capacity, and the hospital has no procedure to extract, retain, and back up historical data from GHX. One of the main purposes for implementing the GHX software as part of SFGH's materials management and purchasing system was to take advantage of the software's reporting and analysis tools to assist Public Health in monitoring materials and supplies purchasing to potentially achieve cost savings.

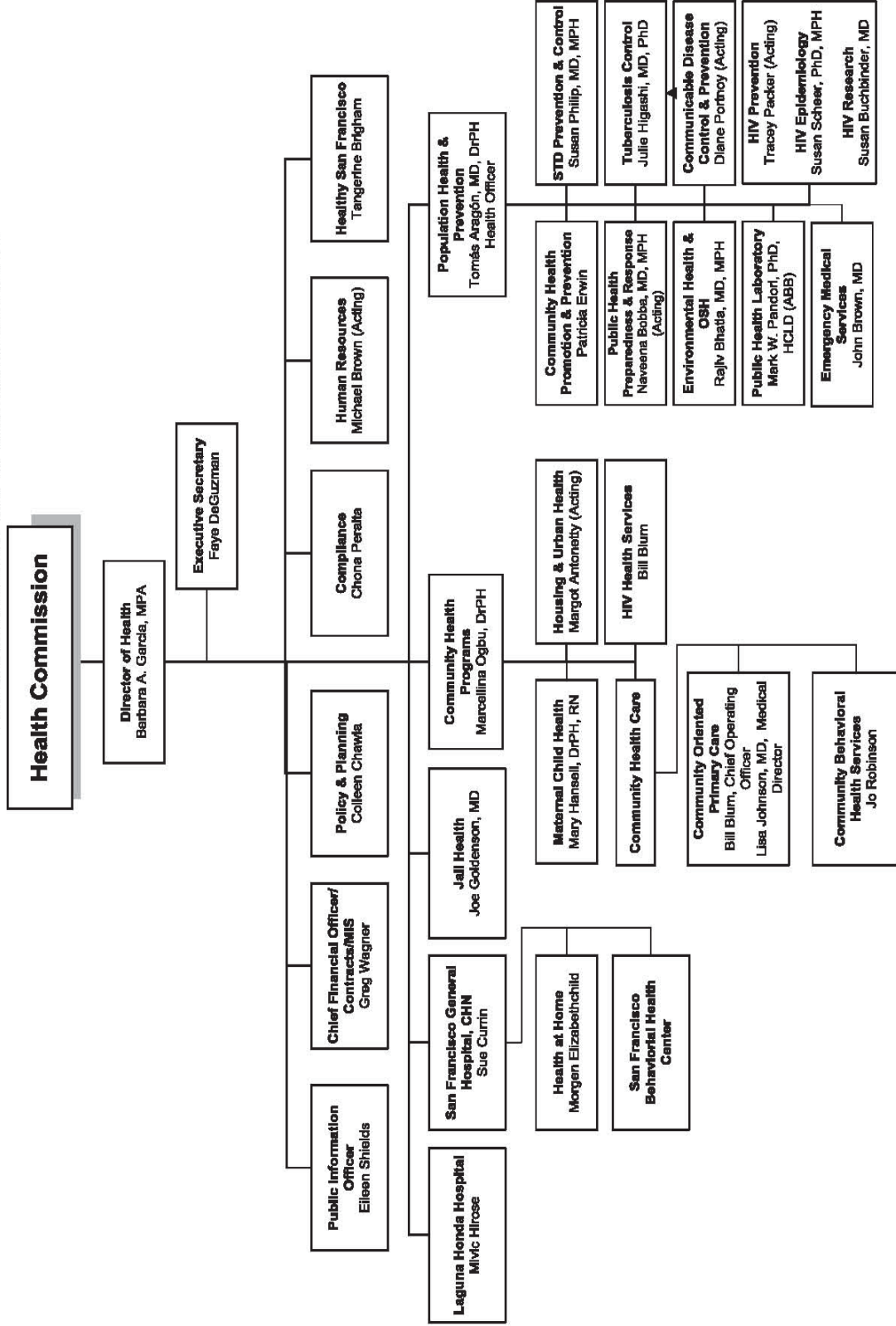
The 180-day limitation prevents the software from being used to report and analyze purchase order data for past periods and over longer periods of time. The audit could not obtain detailed purchase order data from GHX for SFGH and LHH purchases for March 2012 or earlier due to the limitation of the GHX software.

**Recommendations**

The Department of Public Health should:

8. Implement a policy to extract all purchase order data from the GHX system quarterly, and define the length of time to retain the data.
9. Ensure that purchase order data from the GHX system is backed up properly.

# APPENDIX A: DEPARTMENT OF PUBLIC HEALTH ORGANIZATION CHART

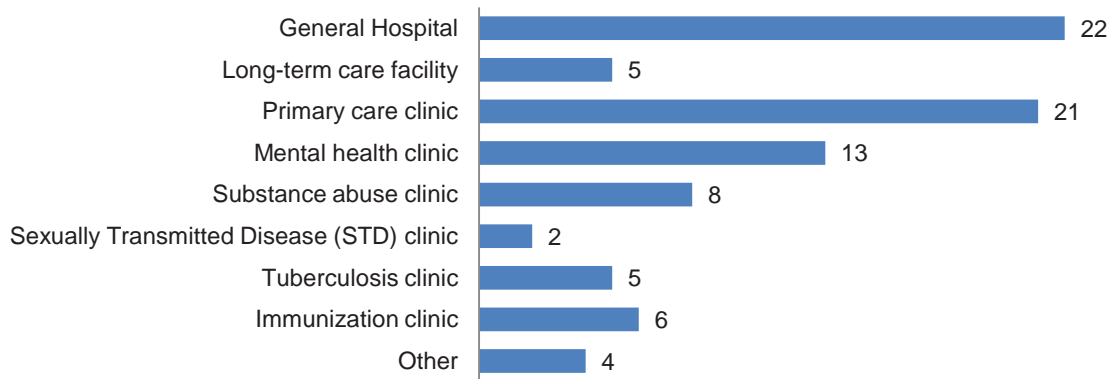


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## APPENDIX B: External Survey Results

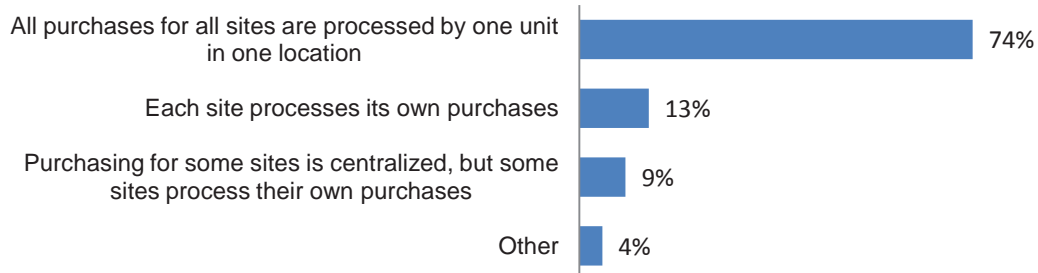
The City Services Auditor (CSA) conducted a survey of healthcare institutions across the country to gather information about purchasing of medical supplies for hospitals and associated health clinic operations. CSA received responses from 26 healthcare institutions: 23 from institutions with multiple sites and 3 from institutions with single sites. Because the Department of Public Health (Public Health) is a multi-site institution, these survey results reflect only the responses from the 23 multi-site institutions.

### Number of Institutions Managing Each Type of Site



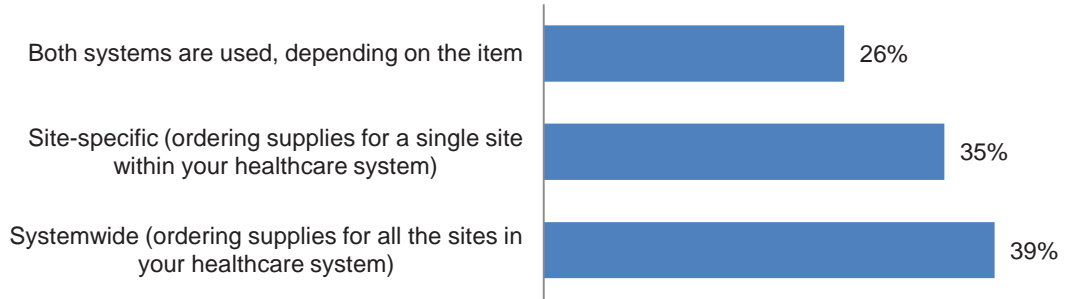
Public Health manages 1 general hospital, 1 long-term care facility, 15 primary care clinics, 17 mental health and substance abuse clinics, 1 STD clinic, 1 tuberculosis clinic, and 1 immunization clinic.

### Are Purchases for Medical Supplies Centralized?



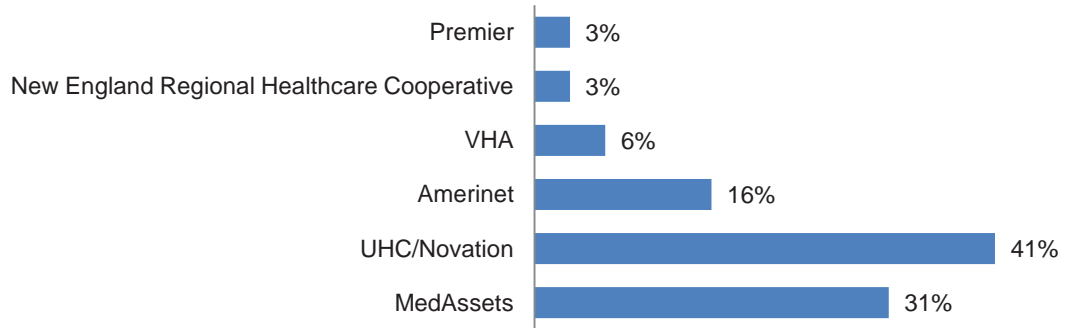
Public Health falls into the third category with three sites purchasing on behalf of the 2 hospitals and 44 clinics: San Francisco General Hospital and Trauma Center (SFGH) purchases for itself and 24 health and primary care clinics; Laguna Honda Hospital and Rehabilitation Center (LHH) purchases for itself; and the Population and Behavioral Health Fiscal unit purchases for 20 mental health, substance abuse clinics, and specialty clinics.

**Are purchases systemwide or site-specific?**



Public Health's purchases are site-specific.

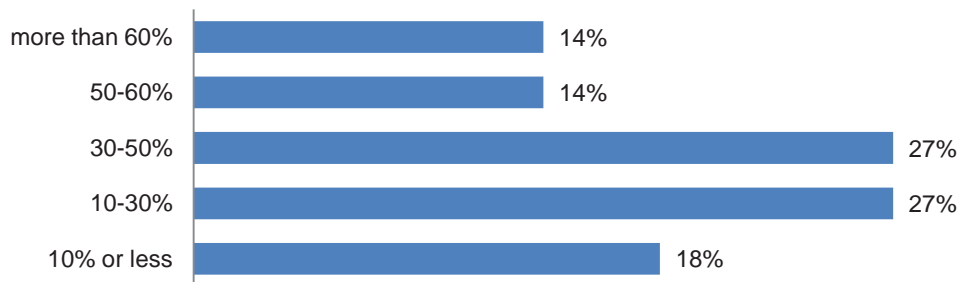
**Group Purchasing Organization (GPO) Membership:**



Note: Some institutions indicated membership in more than one GPO.

Public Health is a member of United HealthSystems Consortium, which offers purchasing solutions through Novation.

**What percent of medical supply purchases are made outside of the group purchasing organization?**





**Innovative strategies or technology that has improved healthcare institutions' purchasing (open ended question):**

- “We use Lawson MRP system along with MedAssets Portal that helps manage contract pricing with our vendors.” (*Alameda County Medical Center*)
- “We utilize an on-line requisitioning system through our Meditech Client Server Materials Management module.” (*Cambridge Health Alliance*)
- “Highly automated with Pyxis supply cabinets in most all departments including the Cath Lab and OR.” (*Truman Medical Centers*)
- “We are in the process of revamping our supply chain with the advice of consultants. We currently use PeopleSoft for purchasing/inventory and EPIC for EHR. We have had some integration difficulties but have made a lot of progress in the past year since we went live with EHR. One of the goals is definitely bar coding for supplies. We currently use bar coding for all medication administration.” (*LSU Health Sciences Center-*)
- “We do not have a warehouse. We outsource that function to our distributor so that every area can order the lowest unit of measure (usually the individual item) and we don't have to deal with boxes, cases, etc. These orders are filled at the distributor's warehouse, and the orders are delivered pre-packed in containers that are taken to the individual supply areas where the stock keepers unload and place orders for restocking, based on par level.” (*University of Rochester Medical Center – Strong Memorial Hospital*)
- “GPO membership. Coop membership consisting of three other AMC's.” (*Tampa General Hospital*)
- “GHX has a good, not great, tool that changes faxes into an electronic order so that we can track the orders. Faxes are not fool proof and can easily be lost so this helps us to monitor our order flow.” (*University of Kentucky Hospital*)

**Respondents:**

Institution Name	Primary Service Area
Alameda County Medical Center	California
UCSF Medical Center	California
Denver Health & Hospital Authority	Colorado
Tampa General Hospital	Florida
Shands Jacksonville Medical Center, Inc.	Florida and Georgia
University of Kentucky Hospital	Kentucky
LSU Health Sciences Center	Louisiana
Cambridge Health Alliance	Massachusetts
Beaumont Health System	Michigan
HealthPartners	Minnesota
Truman Medical Centers	Missouri
University of New Mexico Health Sciences	New Mexico
University of Rochester Medical	New York
SUNY Downstate Medical Center	New York
OSU Medical Center	Ohio
Legacy Health	Oregon
Penn State Hershey Medical Center	Pennsylvania
Lehigh Valley Health Network	Pennsylvania
Memorial Hermann Hospital	Texas
JPS Health Network	Texas
St. Luke's Sugarland Hospital	Texas
University of Washington Medical Center	Washington
University of Wisconsin Medical Foundation	Wisconsin

## APPENDIX C: DEPARTMENT RESPONSE

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City and County of San Francisco

### San Francisco Department of Public Health

Barbara A. Garcia, MPA  
Director of Health

Date: February 11, 2013  
To: Tonia Lediju, Director of City Audits, Controller's Office  
From: Greg Wagner, CFO *GW*  
RE: Controller's Audit of DPH Purchasing

Thank you for your draft audit report on DPH purchasing of medical supplies. Attached are DPH's responses to findings and revisions to the memo.

If you have any questions, please contact Anne Okubo at 554-2825.

cc: Barbara Garcia

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The mission of the San Francisco Department of Public Health is to protect and promote the health of all San Franciscans.

We shall ~ Assess and research the health of the community ~ Develop and enforce health policy ~ Prevent disease and injury ~

~ Educate the public and train health care providers ~ Provide quality, comprehensive, culturally-proficient health services ~ Ensure equal access to all ~

barbara.garcia@sfdph.org -- office 415-554-2526 fax 415 554-2710

101 Grove Street, Room 308, San Francisco, CA 94102

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For each recommendation, the responsible agency should indicate whether it concurs, does not concur, or partially concurs. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

## RECOMMENDATIONS AND RESPONSES

Recommendation	Response
<p>The Department of Public Health should:</p> <ol style="list-style-type: none"> <li>1. Move all of its purchasing functions to the San Francisco General Hospital purchasing location. By doing so, the department can monitor its purchasing departmentwide, make more efficient use of resources, avoid duplication of efforts due to purchasing functions being performed at multiple sites, and reduce risk of future divergence of policies and procedures and lack of oversight.</li> </ol>	<p>Concur with principle to standardize purchasing functions departmentwide. All sites will purchase medical supplies using the San Francisco General Hospital model. All sites, including Public Health programs will be given access to Novation and will use the same policies and procedures to procure medical supplies. However, it appears that SFGH may require additional financial resources to immediately fully assume the purchasing functions. DPH will continue to evaluate this option, but will prioritize the actions above for immediate implementation.</p>
<ol style="list-style-type: none"> <li>2. Ensure that all of its medical supply purchasing data is comparable by entering all purchasing data into the Pathways Materials Management purchasing system to take advantage of GHX purchasing enhancements.</li> </ol>	<p>Concur. However the implementation will not be immediate. Additional evaluation is required, in order to determine a realistic time frame for expanded use of the Pathways (PMM) system throughout DPH. Note that the SFGH conversion from FAMIS to PMM required 24 months to plan and implement. In addition SFGH Materials Management has other major initiatives underway that are currently in the queue ahead of this medical supply purchasing project i.e. 1) purchasing over the next 24 months one-time +\$150 Million in Fixtures, Furniture and Equipment for the New SFGH Building and 2). Two other CSA supply chain efficiency initiatives.</p>

**Office of the Controller, City Services Auditor**  
**The Department's Siloed and Decentralized Purchasing**  
**Structure Results in Inefficiencies**

<b>Recommendation</b>	<b>Response</b>
3. Analyze its purchasing data to determine what purchases would be better made departmentwide rather than by site.	Concur. However the implementation will not be immediate. Upon expanded PMM use throughout DPH, this analysis will be done to determine which purchases can be made department wide rather than site specific.
4. Create a departmentwide purchasing policies and procedures manual.	Concur.
5. Implement a policy to review, at least quarterly, the cost-effectiveness of group purchasing organization purchases considered exempt from the requirements of the Office of Contract Administration.	Concur with principle to review the cost-effectiveness of group purchasing. However, implementation will be phased in. In the first phase, the review will occur at least annually.
6. Develop written policies and procedures to guide staff in deciding when to pursue waivers from the Office of Contract Administration and Contract Monitoring Division. The criteria should consider the clinical need for the item, urgency of the need, cost of mark-up, and overhead costs of applying for the waivers.	Concur.
7. Provide all sites that select vendors with lists of Novation vendors, and require clinic purchasing staff to use Novation vendors when lower prices can be obtained.	Concur.
8. Implement a policy to extract all purchase order data from the GHX system quarterly, and define the length of time to retain the data.	Concur.

Office of the Controller, City Services Auditor  
The Department's Siloed and Decentralized Purchasing  
Structure Results in Inefficiencies

<b>Recommendation</b>	<b>Response</b>
9. Ensure that purchase order data from the GHX system is backed up properly.	Concur.