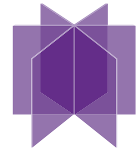

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Winnipeg Regional Health Authority

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Manitoba eHealth
Procurement of Contractors

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Main points

What we found

The Manitoba eHealth Program (eHealth) was established to create a provincial electronic health record. eHealth develops systems that allow medical information to be collected electronically and accessed by healthcare providers throughout Manitoba when needed. Directed by the Manitoba eHealth Provincial Program Council, eHealth provides province-wide service to:

- integrate healthcare delivery systems across regions and care sectors.
- improve and expand health services by managing Information and Communication Technology (ICT) to achieve economies of scale.
- improve the efficiency and effectiveness of ICT services.
- create reliable and secure connections to health information.

eHealth is administratively housed in the Winnipeg Regional Health Authority (WRHA) and is subject to WRHA policies and processes, covering communications, finances, human resources, legal, and procurement. Procurement processes include issuing tenders for goods and services, contracting, and purchasing.

We examined eHealth's processes for hiring and managing contractors to ensure that eHealth was following its policies and procedures in hiring contractors and they were properly managing the contractors they hired.

We found that although eHealth's tendering processes were adequate, there were a number of departures from the competitive tendering process. Also, the reasons for and the process used for hiring contractors were not documented.

Contracts were properly documented but improvements are required in setting contract completion dates and the payment processes could be strengthened.

Many of eHealth's policies and procedures for the procurement and management of contractors follow those of the WRHA; however, we noted that those processes specific to eHealth were not formally documented and approved.

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Why it matters

Between 2008/09 and 2010/11, eHealth capital spending (to implement healthcare systems) increased from $24.3M to $56.6M annually. Of the 2010/11 amount, Manitoba recovered $15.9M from the federal government and other funders, bringing the total it spent to $40.6M. During the 2008/09 to 2010/11 period, total annual operating costs (to operate healthcare systems) increased from $45.9M to $59.3M. eHealth estimates that the total capital costs for Manitoba will be between $500M and $600M over the life of the program. With an annual capital budget of $40M, it will take Manitoba over 13 years to complete the program. Given the importance of healthcare to the public and because of the significant growth of, and commitment to, health spending, we performed this audit to assess eHealth's practices for hiring and managing contractors. eHealth told us that they account for about 30% of capital spending and 6% of operating spending.

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Background

On February 15, 2005, Treasury Board approved the concept of eHealth. Before the program could start, the Department of Health had to give Treasury Board a detailed proposal covering all related issues, such as the ability of government to maintain adequate control, organizational accountability and reporting, project standards, staffing and labour issues, and organizational structure and governance options. On June 20, 2006, Treasury Board gave final approval to establish eHealth as the central organization for the planning, development, coordination; oversight, and ongoing support and delivery of province-wide health information and communication technology projects. It was to be administratively housed in the WRHA and accountable to the eHealth Oversight Committee.

The eHealth Oversight Committee is chaired by the Deputy Minister of Health. Current members also include the Deputy Minister of Innovation, Energy and Mines, the CEO of the WRHA and one member from the Manitoba eHealth Provincial Program Council. Treasury Board said this committee will be responsible for the overall management and accountability of eHealth, and directed that any new staff positions that eHealth may request are subject to the review and approval of this committee. Treasury Board directed the Department of Health to ensure that eHealth is managed and budgeted as a distinct entity in the WRHA, and that financial and programming information is available to central government as required.

eHealth was publicly announced by the Minister of Health on April 11, 2007. The Minister said that eHealth would help create a provincial electronic health record (EHR)—a secure and private lifetime record of a patient's health record and care with the health system in Manitoba. The program gives health-care providers information such as test results as soon as information is put into the system. Healthcare providers will have access to up-to-date information on patients wherever they live in Manitoba. This will help reduce redundant tests and wait times.

Project Management Office (PMO)

The PMO has about 120 people, both employees of eHealth and contractors. Positions in the PMO are mostly project managers and analysts. The PMO's primary role is to develop the systems and manage the projects the Manitoba eHealth Provincial Program Council chooses, with support from Manitoba Health, to meet eHealth's overall goal.

In 2009, PRINCE2 became the standard project management methodology. Applicable PMO staff and contractors must be trained on PRINCE2 to work for eHealth. PRINCE2 has 5 maturity levels to grade an organization's progress in the overall processes. eHealth is currently at level 2 of 5 in the maturity scale. It plans to be at level 3 by the end of 2012.

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Using PRINCE2, eHealth developed the following processes for designing and eventually implementing a project:

1. design business case—this includes putting a governance structure in place.
2. assign project manager—this includes designing the project initiation document and developing the stage plan.
3. develop the product breakdown structure—this involves looking beyond a product to see if any training, software, and testing are needed.
4. develop the final product description—this includes describing the product and acceptance criteria, quality, hours, cost, resources, and monitoring (weekly monitoring, bi-weekly written reports, product review meetings, quality assurance process, etc.).

Procurement process

When a project is approved and the funding is in place, the PMO assigns it to a project manager. The project manager develops a project plan and a resource plan, and then submits requests to a resource manager(s) for specific skill sets to deliver the product. Resource managers look at the availability and skills of their staff. Each resource manager has both staff and contractors working for them on projects. If the resource manager does not have any staff available, a *Request for Resources* (RFR) or *Request for Proposal* (RFP) is issued to hire contractors to perform the task. Typically, an RFR is issued when there is a need for a specific function within a project, such as a project manager. RFRs are usually issued to fill a resource gap where eHealth does not have the capacity or technical capability. To issue an RFP, a specific outcome or solution is required.

Request for Qualification (RFQ)/Request for Resource (RFR) process

The RFQ/RFR process begins at the RFQ stage. eHealth puts out a RFQ to compile a list of contractors that eHealth can later draw from when a specific project with specific skills is required. All RFQ tenders are posted on Biddingo, an online public tendering system. Contractors who respond to the RFQ and meet the qualifications in the RFQ are included on eHealth's Prequalified Vendor List. The list includes contractors qualified to provide support services in the following categories:

- Analyst
- Communications
- Facilitator
- Organizational Change
- Security
- Web
- Architecture
- Development
- Financial
- Project Management
- Technical
- Writer
- Clinical Informatics
- Evaluator
- Management
- Project Management Support
- Training

Once on this list, contractors sign a *Master Service Agreement* (MSA) with the maximum hourly rate that the contractor can charge, their and eHealth's responsibilities, and the consequences of non-performance. No project is assigned to the contractor at this point, so there is no other information on compensation or timelines.

Once a project is approved and a contractor is required, an RFR is tendered. RFRs are not publicly tendered because only those contractors on the pre-qualified vendor list can respond to the RFR.

The RFR includes the specific deliverables, the timeframe for completion, and reporting requirements. The RFR also has the award matrix used to evaluate contractors' submissions. Contractors are evaluated and the one with the highest score gets the contract.

Request for Proposal (RFP) process

RFPs over $100,000 are also publicly posted on Biddingo. If the RFP is under $100,000 and is low risk, eHealth would normally receive 3 quotes.

The winner signs a contract and may also have to sign one or more *Statements of Work* (SOW)—an addition to the existing contract for a specific task. These contracts describe the project deliverables, the timeframe of completion, the contractor's reporting requirements and compensation, and the consequence of non-performance.

Changes to contracts

Changes to contracts are either modifications or extensions to an existing contract. Most changes result from RFR extensions. If there is a financial impact, the appropriate approval of the funding must be obtained. It is customary to have an option-to-extend date of no more than one year approved at the time of the RFR. For extensions beyond the option-to-extend date in an RFR, eHealth must go through the proper tendering or single/sole source process.

Supervision and monitoring

Project managers approve a contractor's hours weekly in eHealth's Enterprise Project Management and Time Tracking system, called PRO-Time. The hours to date are compared to the total approved hours. The PMO receives invoices monthly and approves payment after reviewing and verifying them against the PRO-Time entries. Methods of monitoring, which follow PRINCE2, include requiring the project team or contractor to attend weekly team meetings with the project manager, produce bi-weekly written progress reports, and attend product review meetings and a quality assurance review of each project during the various stages.

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Audit approach

We examined eHealth's procurement and monitoring processes to assess if it:

- follows appropriate policies and procedures in hiring contractors.
- properly manages the contractors it hires.

We conducted the audit between January 2011 and February 2012 and examined the systems and practices in place between June 2006 and December 2011. The audit was performed in accordance with the value-for-money audit standards recommended by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The audit included review and analysis of legislation; review of procurement standards; reports on eHealth programs in selected other provinces; and eHealth and WRHA policies and practices, files, records, reports, correspondence, and other program documentation.

We selected a sample of 50 files, including 42 RFQ/RFR contracts and 8 RFP contracts.

We interviewed management and staff at eHealth, the Department of Health, and the WRHA. We also spoke to members of the Manitoba eHealth Program Council and Oversight Committee.

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Findings and recommendations

1. eHealth procurement processes

1.1 Policies in place but eHealth procedures not documented

eHealth is administratively housed in the WRHA and subject to all WRHA policies and processes, covering communications, finances, human resources, legal, and procurement. Procurement processes cover issuing tenders for goods and services, contracting, and purchasing. All WRHA policies are subject to a compliance review and a review for required changes at least once every 5 years.

There are a number of procurement procedures specific to eHealth that are not documented in WRHA policies. eHealth told us that they must ensure the procedures in their working group are maintained and are efficient. Procedures specific to eHealth are reviewed as needed, without a specific timeframe. We reviewed eHealth's procurement and management of contractors and found that most procedures specific to eHealth were not formally documented and approved and not regularly reviewed or updated. There is no timeframe for when they are to be reviewed. While we agree that eHealth does not need to duplicate the WRHA policies in a separate manual, some of the processes and procedures are quite different at eHealth and need to be documented.

Updates and changes to policies are emailed from WRHA to site policy contacts including eHealth. The contact then sends them to their staff. For significant changes, policy writers and site contacts often use more communication, such as memos to affected staff and education sessions. We reviewed a sample email to eHealth staff on a policy change and found the information was adequate.

Recommendation 1: We recommend that eHealth:

a. formally document and approve all procurement procedures.
b. review procedures at least every 5 years.

1.2 Reasons and processes for hiring contractors not documented

Projects are first assigned to a project manager who asks the resource managers if they have the right employees to perform the task (availability and skills). Each resource manager has both employees and contractors working for them. If a resource manager does not have any employees available, an RFR or RFP is issued for a contractor to perform the task. Each

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resource manager has their own method of tracking and determining the availability of their employees. No one tool is used by all resource managers or directors to assess employee availability or to track the history to see whether to hire more employees or contractors. eHealth's PRO-Time software can perform these functions, but eHealth would need to buy the enterprise license and implement the supporting processes. An automated tool used by all resource managers and directors could improve resource use and efficiency, and should be explored.

None of the 50 contracts we examined had any written documentation on how the project manager or resource manager decided whether to hire contractors or use employees. The PMO confirmed that the managers make this decision, but they do not document the process they use. The decisions were not reviewed by a supervisor.

Recommendation 2: We recommend that eHealth document the reasons for hiring contractors instead of using employees, and require a supervisor to review the decision.

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1.3 Tendering processes adequate

1.3.1 Most tendering documents based on a business case

WRHA's policy says that a need for equipment, supply, or service will be identified by stakeholders (for example physicians, funders, or customers). They, with support from Logistics Services contracting staff, decide the scope of the initiative, core contract requirements, specifications, and award criteria.

There are many different projects, ranging from simple initiatives to formal projects managed by the PMO. As a result, a business case document may not always be prepared for smaller projects. All projects managed through the PMO and using PRINCE2 require some sort of business case that meets stakeholder and customer needs. PRINCE2 came into effect in 2009. PMO staff said that it is important for eHealth to continue supporting PRINCE2 to ensure that projects are consistent and the proper controls are followed in order to reduce the risk of improper tendering practices.

Most business cases we examined were based on Treasury Board funding submissions. Other cases included project mandates and project charters. These business cases included the necessary background information on the project, the funding required and the needs and benefits to the stakeholders. They all indicated that they met stakeholder and customer needs and involved stakeholders in their planning and analysis phases. We reviewed the various business cases presented, both before and after the PMO implemented PRINCE2.

There was no change in what eHealth prepared—most business cases continued to be Treasury Board funding submissions.

Of the 50 contracts we examined, 40 had some form of business case. Eight contracts lacked a business case, but had a reasonable explanation (for example, not originally an eHealth project). And 2 contracts had no business case. One of them was from 2003 (prior to eHealth's existence). eHealth told us the other had a strategy document, but they couldn't find it.

1.3.2 Tendering documents authorized

WRHA policy says that for non-recurring financial commitments (such as contractors) that affect the operating budget, written approval confirming funding availability must be obtained from the appropriate signing authority.

eHealth's *RFR Instructions and Contact Information* says that the RFR initiator must obtain approval to proceed at the director level by emailing the eHealth PMO mailbox. Once the funding is approved by the Director the tendering document is prepared. The draft document is then approved by the Director and then issued.

Of the 50 contracts we examined, 46 tendering documents were authorized by the director. Three contracts were single/sole sourced and thus not tendered. One tendering document lacked documented approval, but it was tendered before the current policies and procedures were in place.

1.3.3 Tendering documents included contact information and submission date

Although there is no documented policy on what tenders should include, eHealth's process follows the *Agreement on Internal Trade* which requires tenders to include the closing date and time, and the location to submit proposals.

Of the 50 contracts we examined, 47 of the tendering documents had the contact information and the required submission date. Three contracts were single/sole sourced, so they were not tendered.

1.3.4 Tendering documents explained the selection process

Tendering documents use an evaluation criteria matrix to explain the selection process to contractors. The matrix details the evaluation process, including the specific criteria to assess responses. Criteria can include pricing, skills, experience, technical specification, and other factors specific to the tender.

Of the 50 contracts we examined, 47 had tendering documents that explained the selection process. Three contracts were single/sole sourced, so they were not tendered.

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1.3.5 Tenders publicly posted when required

WRHA policy requires each financial commitment of $25,000 or more to be managed by WRHA Contracting Services. It also requires each financial commitment of $5,000 to $24,999 to have 3 written quotes before any purchase.

All RFQ tenders are posted on Biddingo (online public tendering system). RFR tenders are not publicly posted because only contractors on the prequalified vendor list can respond to these proposals. RFP tenders over $100,000 are also publicly posted on Biddingo.

eHealth's process requires contracting staff to assess all purchases over $25,000. eHealth contracting staff will publicly post requirements for purchases over $100,000. If the purchase is under $100,000 and low risk, contracting staff would normally require 3 quotes.

Of the 50 contracts we examined, all the tenders over $100,000 were publicly posted. All tenders under $100,000 were either publicly posted or received 3 quotes, except for 3 contracts that were single/sole sourced.

1.3.6 Effective controls over collecting and opening proposals

RFQ's received within the RFQ timeframe are opened by 2 people. Both people initial the list of bidders to show they opened all the bids.

The RFR process differs from the RFQ process as these contractors have already been approved. There are no opening procedures for RFR responses as they are electronically submitted and received. RFRs go to a central email address where an RFR analyst ensures they are on time and whether the bids are compliant with all mandatory requirements. Copies of the emails are kept, with date and time received.

RFP bids received within the RFP timeframe are opened by 2 people. Both of them initial the list of bidders to show they have opened all the bids received.

We reviewed a sample of RFQ tender control sheets and found that they were signed by the receptionist when received. A contract specialist and contract analyst opened the proposals and initialed the sheets. Of the 42 RFR contracts we examined, 40 contracts included copies of emails showing the date and time received. Two contracts were single/sole sourced and thus not tendered. Of the 8 RFP contracts we examined, 7 tender control sheets were signed by the receptionist and showed the date and time received. The contract specialist and contract analyst opened the proposals and initialed the sheets. One contract was single/sole sourced.

1.3.7 Conflict-of-interest declarations not signed or reviewed

WRHA's *Conflict-of-Interest* and *Industry Relationships* policies require employees, including those who evaluate contractor proposals, and contractors to disclose in a conflict-of-interest declaration all their outside relationships with industry that could cause a conflict

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of interest. And they must notify their supervisor of any material changes in the information with an updated declaration. Supervisors must forward any disclosure to the responsible director, who decides if there is an independence issue and whether the evaluator or contractor should be removed.

Conflict-of-interest situations need to be carefully managed to ensure that the proper decisions are made objectively. The first step is to know when conflicts exist. The next step is for a more senior independent person in eHealth to decide how to deal with it.

eHealth requires the person who initiates the RFR to also evaluate the proposals (they can include others in the evaluation). If they have a conflict of interest, they have to note it and excuse themselves from the process or face discipline. Only WRHA or eHealth staff can evaluate the proposals. Final approvals are made at a director and CIO level.

We reviewed the evaluation criteria matrix for our sample of contracts to see who evaluated the proposals and whether they signed conflict-of-interest forms. All these people were directly involved in managing the projects; however, no one signed a conflict-of-interest declaration. Also, no contractors from our sample of files signed a conflict-of-interest declaration.

Recommendation 3: We recommend that eHealth strengthen their conflict-of-interest policy to require declarations to be completed and signed each year.

Recommendation 4: We recommend that at least one more person—not directly involved in the project—help evaluate and select contractors to ensure the selection is unbiased.

1.3.8 Evaluation criteria used to assess and select contractors

An evaluation criteria matrix is included with the tendering document, showing the criteria for assessing responses. Criteria can include pricing, skills, experience, technical specifications, and other factors specific to the initiative. Contractors are evaluated based on these criteria and the one with the highest score gets the contract.

In our sample of 50 contracts, 47 included an evaluation criteria matrix. The criteria were consistent with the tendering document. Three contracts were single/sole sourced, so they were not tendered.

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1.3.9 Contractor selection process adequately documented

The RFR and RFP award matrixes completed for each tender document must show how each contractor scored on the various criteria and the final selection. All but one of the sampled contracts documented the selection of the contractor on either the award matrix or an evaluation spreadsheet. The one contract without documentation was from 2003, before the current policies were in place.

1.3.10 Debriefing process not always explained to unsuccessful bidders

eHealth follows WRHA's debriefing process. All unsuccessful proponents can have a debriefing if they ask for it, in writing, within 30 days of receiving the contract award notification.

We reviewed the sample of contracts and saw that emails were sent out to unsuccessful RFR contractors saying to contact Logistics Services for any questions on the decision. RFP letters to unsuccessful contractors included information on the appeal process but not on the debriefing process. Only 2 formal debriefings have occurred at eHealth.

Recommendation 5: We recommend that eHealth explain the debriefing process to all unsuccessful contractors in writing.

1.4 An independent appeal process exists

eHealth's follows the WRHA appeal process. It says that proponents can appeal an award decision if they believe they were inequitably treated during the competitive bid process. Logistics Services will talk with the contractor as a first step to resolve their concerns. In some cases, the appeal is then withdrawn.

When eHealth receives an appeal notice, a contract specialist replies to tell the appellant they received the appeal, they'll investigate it, and send the appellant a written response as soon as possible. A contract specialist, who is not involved in the original decision, drafts a response to the appellant from the Director, Regional Supply Chain. The Director tells the Vice President and the CFO. They consult Internal Legal if required. eHealth told us that no contractors have appealed.

For RFQ/RFR tenders, appeal information is included in the RFQ tendering document and included in the file. Appeal information is included in the decision letter for RFPs and a copy of the letter is included in the file.

We reviewed a sample of RFQ tendering documents and RFP decision letters to unsuccessful contractors. Appeal information was included in both documents.

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1.5 Departures from competitive tendering

WRHA's single/sole source process indicates that a single/sole source form is completed when it can be justified that the competitive bid process does not need to be followed. Acceptable justification includes:

1. responding to a lack of competition.
2. ensuring compatibility with existing products, service, and equipment.
3. supporting repair and maintenance services and supplies from the original equipment manufacturer (OEM), or its designated representative, when the manufacturer or its designated representative has to provide the services and supplies to retain the OEM warranty.
4. supporting procurement of equipment upgrades from the original manufacturer to existing equipment and information technology hardware and software, when the upgrades can be obtained only from the manufacturer.
5. recognizing exclusive rights, such as exclusive licenses, copyright or patent rights.
6. buying a prototype (that is not approved for retail sale, still under development and may require special access licensing if a medical device).
7. dealing with a statutory monopoly (such as hydropower).
8. having the work done under guarantee or warranty.
9. responding to unforeseen and compelling urgency.

These justifications are in line with the *Manitoba Procurement Administration Manual.*

The single/sole source form requires senior management approval. Contracting Services (Contract Specialist and Senior Contract Specialist) reviews the form for completion and obtains missing information before sending it to the Senior Analyst to process. They also ensure there is evidence to support the single/sole source claim before forwarding it for approval to the following people:

- Regional Manager, Contracting Services.
- Regional Director, Supply Chain.
- VP Finance and CFO.
- WRHA CEO.
- for eHealth related single/sole source forms, the CIO also signs the form.

On June 23, 2009, eHealth issued an email saying, going forward; sole sourcing for RFRs was no longer required for extensions. The justification was that the original project had been tendered and the work needed to continue with that contractor. In the spring of 2010, WRHA Internal Audit recommended that all extensions should require an approved single/ sole source form, and therefore the original process was restored.

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Of the 50 contracts we examined, 15 required a single/sole source form. For 9 of the 15 contracts, a single/sole source form was properly completed and authorized. However, within these 9 contracts, 4 had both single/sole source forms properly completed as well as extensions that were not single/sole sourced as a result of the policy change for 10 months in 2009/10 when no single/sole source forms were required. Four of the 15 contracts had no single/sole source form because of the policy change. For the remaining 2 contracts, no single/sole source form was completed. Regarding these 2 contracts, Management said the single/sole source process was not fully implemented until 2009, so the process entailed only email approval from an eHealth Director and WRHA Management before then. Overall, 13 of the 15 contracts complied with the approved single/sole source process.

2. Managing contractors

2.1 Contracts properly documented

2.1.1 Contracts properly authorized

Before a contract is authorized, a *Contract Authorization* form must be approved by eHealth management. The contract authorization forms are processed under WRHA's *Signing Authority Limits* policy and based on the total value of the contractor's compensation. After the *Contract Authorization* forms are approved, the contract is signed by the WRHA Regional Director Supply Chain and the contractor.

Of the 50 contracts we examined, all of the *Contract Authorization* forms, *Master Service Agreements* (MSA), Contracts, and *Statements of Work* (SOW) were properly authorized.

2.1.2 Contracts clearly described the contractor's deliverables

MSAs do not describe specific deliverables because when they are signed, the tasks are unknown. Rather, the deliverables are described in the RFR tendering document. The MSA describes the contractor's roles and responsibilities if hired to perform a project. Contracts and SOWs signed in association with a RFP describe project deliverables.

In all the files we reviewed, contractors knew of the deliverables either through the tendering document or the contract and SOW.

2.1.3 Contracts clearly described the time for completion

MSAs, which are not project specific, do not state the completion date of a project because when they are signed, the tasks are unknown. The completion date is described in the RFR tendering document. RFPs may result in either a contract with clearly defined completion dates or a general contract with the completion dates defined in SOWs.

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In all the files we reviewed, contractors knew of the completion date either through the tendering document or the contract and SOW.

2.1.4 Contracts indicated the contractor's and eHealth's responsibilities

In all the files we reviewed, MSAs, contracts, and SOWs all indicated the contractor's and eHealth's responsibilities.

2.1.5 Contracts indicated any reporting requirements of the contractor

The MSAs do not indicate the contractor's reporting requirements. The reporting requirements are described in the RFR tendering document. Of the 8 RFP contracts we examined, 6 indicated the contractor's reporting requirements. Of the 4 SOWs we examined, 3 indicated the contractor's reporting requirements. The remaining 2 RFP contracts and one SOW did not require any reporting requirements due to the nature of the project.

2.1.6 Contracts indicated compensation and method of payment

The MSA previously signed by the contractor includes an hourly rate, which the contractor cannot exceed in their RFR submissions. The total approved hours for a job are outlined in the RFR; the total cost is based on the winning bidder's hourly rate. All 42 MSAs included the contractor's hourly rate. All 8 contracts relating to RFPs indicated the contractor's compensation.

2.1.7 Contracts indicated the consequences of non-performance

All 42 MSAs indicated the consequences for non-performance in Schedule D – Termination of the MSA. Of the 8 contracts related to RFPs, 7 had the consequences for non-performance. One contract was a software purchase, so non-performance by the contractor did not apply. One of the 4 SOWs indicated the consequence for non-performance, while 3 had the consequence in the original contract.

2.2 Improvement required in setting contract completion dates

An extension date (option-to-extend) is normal on all RFR contracts. The extension period allows eHealth to retain the services of the contractor to complete the original contract should additional time be required. It also allows eHealth to approve the additional hours without going through the tendering or single/sole source process as the extension is approved in the original tender. Funding approval must still be received prior to any extension. It is customary to have an option-to-extend date of one year approved at the time of the RFR. This can be reduced to a few months, but not more than one year. If the project is not completed by the due date, and eHealth chooses not to extend it, the contract is terminated.

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Good contract management practices require contracts be completed on time and on budget. In order to do this the project must be properly planned, including an accurate completion date, and cost must be controlled.

Of the 50 contracts we examined, 32 were not completed by the approved completion date. Of these 32 contracts, 14 were not completed by the option-to-extend date. Of the 18 remaining, 15 were completed on time while 3 contracts were not completed at the time of our audit.

Recommendation 6: We recommend that eHealth improve its method of setting contract completion dates to ensure that they are obtainable.

2.3 Project changes properly authorized and documented

Changes to existing contracts came in the form of amendments to existing MSAs, contracts or SOWs, or an extension to existing RFR contracts. Most changes resulted from RFR extensions.

WRHA's *Contract Compliance* policy says that the procurement of products, equipment, and service outside a contract are not permitted unless there is an agreement which allows the department to contract outside of the WRHA Logistics Services process.

eHealth's amending agreement process indicated that if more funding was needed, eHealth gave the contract specialist an email from the appropriate signing authority to authorize the increased financial commitment. The contract specialist arranged for authorization through the Contracting Services' signing authority chain.

Extensions to RFR contracts were allowed without going through the single/sole source process. These extensions could be a few months but not more than one year from the completion date. The required documentation was:

- *Contract Authorization* form completed and signed by authorized management.
- email noting approval from eHealth Director or CIO.
- contract extension/amendment letter signed by eHealth and the contractor.

Any extensions beyond the option-to-extend date were usually single/sole sourced and the proper single/sole source processes were to be followed.

Of the 50 contracts we examined, 38 were either extended beyond the original completion date or amended (32 extensions and 6 amendments). Thirty-seven of these files were properly authorized and thus met eHealth's change-request process. One contract with amendments did not comply with eHealth's processes because the work began before the change request was approved. The change request was for another 72 hours to complete

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a SOW. eHealth staff said that it is not common practice for work to continue on a project even though the extra hours are not yet approved, as in this case. All 38 files were adequately documented.

Recommendation 7: We recommend that eHealth follow their policies and procedures regarding changes to projects and obtain approvals prior to commencing additional work.

2.4 Contractors now appropriately supervised and monitored

2.4.1 Contractors supervised and managed other contractors

eHealth and WRHA did not restrict contractors from managing other contractors. But controls to mitigate this risk included eHealth employees (project managers, resource managers, and directors) overseeing the work of all contractors and approving contractors' time and payments.

We compared eHealth's procedures around monitoring of contractors to the issues discovered in the Auditor General of Ontario's October 2009 report titled *Ontario's Electronic Health Records Initiative*. Contrary to the case in Ontario, we noted that eHealth did not hire contractors in an executive role.

Recommendation 8: We recommend that eHealth develop, document, and approve policies/procedures to:

a. mitigate the risks when contractors manage other contractors.
b. prohibit contractors from filling executive roles in eHealth.

2.4.2 Management inspected, documented, and approved contractor services

Project managers approved contractors' hours weekly in eHealth's Enterprise Project Management and Time Tracking system, called PRO-Time. The hours to date were compared to the total approved hours. Invoices were received monthly by the PMO and approved for payment after being reviewed and verified against the PRO-Time entries (copies of invoices are sent to the PMO monthly with originals going directly to WRHA Finance). Monitoring the services being provided followed the PRINCE2 methodology. This included requiring the project team or contractor to attend weekly team meetings with the project manager, produce bi-weekly written progress reports, attend product review

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meetings, and do quality assurances reviews of each project during the various stages. This process has been in effect only since PRINCE2 came into effect in 2009. It is unlikely there is any evidence of monitoring contractors before this.

Our review of the 50 contracts found that 23 had evidence of prompt management monitoring of the contractor. Twenty-five contracts had no evidence of management monitoring the contractor. Monitoring was not documented before PRINCE2 was implemented in 2009 (23 of the 25 contracts were prior to the implementation of PRINCE2). Two contracts were not relevant because of the service involved.

2.5 Payment processes could be strengthened

2.5.1 Payments generally consistent with contracts

Contractors hired through the RFR/RFP processes were paid based on either an hourly rate or the project total in the contract. In the case of RFRs, the majority were paid on an hourly basis as agreed to in the MSA.

eHealth has developed a number of controls to ensure that payments agree to the contract and that they do not exceed the contract value. Prior to 2010 a RFR analyst would track each RFR project on a separate spreadsheet to ensure the payments were correct and did not exceed the total contract value. For RFP projects and SOWs the authorizing manager would be responsible to ensure the invoiced amounts were in alignment with the contracted terms.

All RFR/RFP contracts signed after October 2010 require a purchase order (PO) for payments. This control ensured that the contracted hours were not exceeded. For RFRs the project manager approved the contractor's hours weekly in PRO-Time. Invoices went monthly to the PMO, with the originals going directly to WRHA Finance. The PMO approved payment after verifying it against the PRO-Time entries. Hours are then received in eHealth's financial system and if the received hours exceed the PO hours, then payment will not be made (3 way match control). This process is used for RFRs and most other hourly RFPs.

We reviewed one payment for each of the 50 contracts we sampled to ensure that the payments were consistent with the contracts (rates and payments agreed to the contract and payments did not exceed the approved contract total).

Of the 42 RFR payments we sampled, 40 were based on an hourly rate and 2 were based on a flat fee contract. All 42 payments agreed to the contract amount. The 40 payments that were based on an hourly rate agreed to the hourly rates included in the MSAs. The hourly rates were between $85 and $165 per hour depending on the type of work. The 2 payments relating to the flat fee contracts also agreed to the contract total. Controls in place ensured that the RFR payments did not exceed the contract total.

All 8 RFP contracts are based on a fixed fee and agreed to the original contract or SOW. When testing to see whether the total payments exceeded the total contract, we found 1 exception. eHealth told us that it is common for RFP contract amounts to be approved based on estimates because the project total is unknown when the contract is signed. As a result, payments can exceed these estimated amounts when it becomes evident that the amount of work required is more than what was estimated. The manager must monitor this, but no formal process exists in these cases to ensure that contracts stay on budget.

Recommendation 9: We recommend that eHealth formalize its process to track all payments for each contract and establish controls to ensure that contracts do not exceed budget.

2.5.2 Contractor compensation tied to performance and deliverables

Contractors' hours were approved by the project manager and invoices were matched to this approval before payments were made.

Of 50 contracts we reviewed at eHealth, payments were directly tied to hours worked for 43. For 7 contracts, payments were tied to specific deliverables. Contractors' bids were based on a number of hours at an hourly rate. The deliverable was the work performed on the project. For other contracts, the deliverable was specified in the contract, such as software or security.

2.5.3 Management approval of time not always obtained

Project managers approved contractors' hours weekly in eHealth's PRO-Time system. Invoices went monthly to the PMO (originals going directly to WRHA Finance), which approved payment after reviewing and verifying them against the PRO-Time entries.

Of the 50 payments we reviewed, 39 had appropriate management approval of time. Management approval consisted of either approval that the contractor worked the time billed or the goods and services billed were received.

For 11 payments, there was no evidence of management approval of time for 2 reasons. Some projects at eHealth were not processed through the Project Management Office and therefore did not appear in eHealth's project-management system. These projects included Manitoba Health and Diagnostic Services projects. Other projects were off-site and contractors could not access eHealth's project-management system. These cases accounted for 8 of the 11 payments. For the other 2 payments, we did not receive documentation to show that the time was approved.

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Recommendation 10: We recommend that eHealth develop clear procedures for when contractors are not able to enter time in eHealth's time-tracking system, such as when a contractor is working off site or a project is not coordinated through the Project Management Office.

2.5.4 Travel, per diem, and incidental expense rates reasonable

The current travel rates are consistent with the provincial rate. Of the 50 contracts we reviewed, none of the files included any travel, per diem, or incidental expenses.

2.5.5 Invoices not always approved by authorized people

No contractor had signing authority for payment of any invoices. Invoices received went monthly to the PMO (originals going directly to WRHA Finance), which approved payment after reviewing and verifying that either the goods were received or the time was approved. This approval had to be at the manager or director level.

Of the 50 invoices we reviewed, authorized people approved payment for 43 invoices. The other 7 invoices had no evidence of payment approval. We urge eHealth to ensure that required approvals are documented.

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Summary of recommendations and response of officials

The Winnipeg Regional Health Authority (WRHA) and Manitoba eHealth agree with the findings of the Auditor General in its report on Procurement of Contractors. The WRHA and Manitoba eHealth place a high priority on fair and transparent tendering practices, and we believe that the procurement audit has provided valuable feedback and advice that will assist us in our ongoing efforts to achieve the highest possible standard in this key operational area.

All of the recommendations contained in the report are in various stages of implementation (see responses to the recommendations below). Manitoba eHealth, as the WRHA's IT Service Provider, relies on the contractor community to supplement resource requirements and is committed to the continuous improvement of the procurement of contractors consistent with the recommendations in this report.

Beyond these important measures, Manitoba eHealth continues to improve its processes, procedures and controls by following best practices and implementing proven industry standards. Manitoba eHealth will work collaboratively with all stakeholders to ensure that all recommendations are addressed in an expeditious manner.

eHealth procurement processes

1. **We recommend that eHealth:**
   a. **formally document and approve all procurement procedures.**
   b. **review procedures at least every 5 years.**

   Response: Manitoba eHealth is subject to all WRHA policies and related procedures, which are all currently subject to periodic review. We agree that all applicable processes that are specific to Manitoba eHealth will be formally documented and approved.

2. **We recommend that eHealth document the reasons for hiring contractors instead of using employees, and require a supervisor to review the decision.**

   Response: Manitoba eHealth will continue to follow the WRHA policies when entering into contracts with vendors for provision of all services. We will implement additional processes to ensure initiators clearly identify the reasons behind using a contractor instead of an employee. These decisions will be approved by a manager and director.

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3. **We recommend that eHealth strengthen their conflict-of-interest policy to require declarations to be completed and signed each year.**

    Response: Manitoba eHealth is currently subject to the WRHA Policy on Conflict of Interest (COI), which requires that all senior managers sign a COI declaration annually. Further, all current contracts with vendors require them to identify COI situations at all times within the term of any contracts. With the above understanding, Manitoba eHealth agrees to review its current contracts to ensure that the language is appropriate and a review of the WRHA COI policy will be done to further refine contractor's obligations.

4. **We recommend that at least one more person—not directly involved in the project—help evaluate and select contractors to ensure the selection is unbiased.**

    Response: Agreed. Manitoba eHealth will review its procedures on evaluations and include an independent additional person where appropriate.

5. **We recommend that eHealth explain the debriefing process to all unsuccessful contractors in writing.**

    Response: Agreed. Manitoba eHealth will work with WRHA Logistics to ensure that all written material provided to vendors include additional appropriate information on the debriefing process.

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Managing contractors

6. **We recommend that eHealth improve its method of setting contract completion dates to ensure that they are obtainable.**

    Response: Agreed. Manitoba eHealth will review its current estimation process with the objective of improving the accuracy of estimates.

7. **We recommend that eHealth follow their policies and procedures regarding changes to projects and obtain approvals prior to commencing additional work.**

    Response: Manitoba eHealth will continue to educate staff regarding the proper processes to follow when extending contracts.

8. We recommend that eHealth develop, document, and approve policies/procedures to:

a. mitigate the risks when contractors manage other contractors.

b. prohibit contractors from filling executive roles in eHealth.

Response: Manitoba eHealth will review its current practices and consider additional means to further mitigate the risks identified by the Manitoba OAG.

Manitoba eHealth does not use contractors in executive roles within eHealth, and will update the appropriate policies to reflect this practice.

9. We recommend that eHealth formalize its process to track all payments for each contract and establish controls to ensure that contracts do not exceed budget.

Response: Agreed. Manitoba eHealth will work with WRHA Logistics to implement, within SAP, the necessary processes to track payments and ensure the sum of payments do not exceed the contract amount.

10. We recommend that eHealth develop clear procedures for when contractors are not able to enter time in eHealth's time-tracking system, such as when a contractor is working off site or a project is not coordinated through the Project Management Office.

Response: Agreed. Manitoba eHealth will review its practices and implement necessary changes.

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