

# A Drug Manager's Toolkit-2

**Managing  
Procurement:  
Pooled  
Procurement  
and  
Streamlining of  
Processes**





# Updates From the Field TECHNICAL NOTES

No. 2 Series of 2001  
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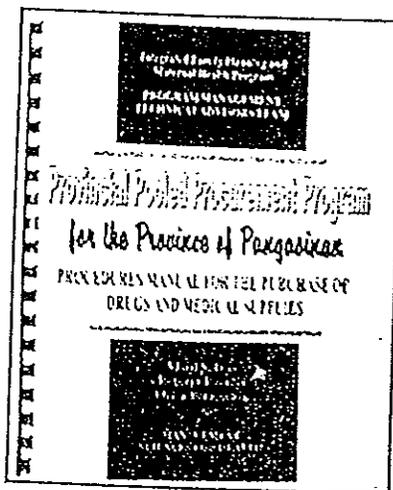
## POOLED PHARMACEUTICAL PROCUREMENT IN PANGASINAN

### Background

The Province of Pangasinan, in the northern part of the Philippines, is one of the country's largest and most heavily populated provinces. Like most Local Government Units (LGUs), Pangasinan has to deal with limited financial resources, shortages of drugs and medical supplies in most of its government hospitals, and high and varied prices for drugs across its municipalities and cities. Many district hospitals in Pangasinan do not comply with the Philippine National Drug Formulary (PNDF). For example, they purchase cough syrups and antidiarrheal preparations, although Executive Order No. 49 directs that the PNDF be followed for government procurement of drug products and for clinical management standards and protocols. Hospitals routinely resort to emergency purchases, even for vital and essential drugs. Moreover, pharmaceutical procurement has not been confined to the health sector. The Office of the Governor purchases drugs and medical supplies to distribute to indigent constituents who personally seek assistance from the Governor. Other sources of pharmaceuticals are local politicians, who sponsor medical missions using their "countryside development funds." The need to systematize pharmaceutical procurement has thus become a priority concern for Pangasinan, to

reduce costs and improve the availability of drugs in its hospitals.

In 1998, the Governor resolved to improve the quality of hospital operations, including drug procurement. While quality assurance activities were piloted only in the provincial hospital, reforms in pharmaceutical procurement encompassed all 14 hospitals managed by the province.



To get the reform activities off to a good start, Governor Victor Agbayani sought technical assistance from Management Sciences for Health (MSH) to set up and implement a pooled pharmaceutical procurement system. With assistance from MSH, the provincial government organized a series of meetings with hospital chiefs, General Services Office (GSO) staff, hospital staff, and suppliers

to draft a province's pooled procurement system. MSH conducted interviews with key LGU officials and personnel on the LGUs' standard operating procedures that were important to developing the new system.

### How the New Procurement System Works

#### 1 Hospitals prepare their annual procurement plan.

The process starts in June, when hospitals prepare their annual procurement plans. Department heads prepare their respective procurement plans based on an analysis of leading causes of morbidity and mortality, treatment protocols, and the PNDF. MSH trained the staff of all 14 hospitals in the province to use two tools for setting priorities for purchasing drugs: VEN analysis and ABC value analysis.

VEN (vital, essential, nonessential) analysis classifies drugs into two or three categories according to their therapeutic value or to how critical the drug is for treating common diseases. The hospital staff determine the cases most commonly seen and treated at their respective facilities through their regular morbidity and mortality reports. They then determine how these cases



**MATCHING GRANT PROGRAM**  
Department of Health

## ANNUAL PROCUREMENT PLAN

Type of Plan	Name of Department or Office				Plan Control No. _____	Page _____ of _____ Pages												
					Plan Amount: _____		Date Submitted: _____											
Description	Unit	Unit Price	Quantity	Total Amount	DISTRIBUTION													
					1st Quarter		2nd Quarter		3rd Quarter		4th Quarter							
					QTY	Amount	QTY	Amount	QTY	Amount	QTY	Amount						
<b>TOTALS</b>																		
NOTE: 1. The above procurement plan is in accordance with the objectives of the office.  2. Funds have been earmarked for this purpose.					PREPARED BY: _____		CERTIFIED CORRECT _____											

are treated based on their standard clinical guidelines and protocols. Finally, they classify the drugs to be used in treatment as vital, essential, or non-essential, and give priority in procurement and setting of buffer stocks to vital drugs.

ABC analysis assembles data from recent or projected procurements to determine where money is actually being spent, allowing managers to focus first on high-cost items when considering ways to reduce procurement costs. The items procured are ranked according to their annual value in Philippine pesos, from highest to lowest, and cut-offs are made as guides for decision-making. The entire procurement is divided into three categories: A, B, and C. Items in the A category are those that make up 75-80% of the total cost. Items in the B category represent the middle 10-15%, and those in the C category represent about 10%. Class A products are few

but account for a very large proportion of the cost of drugs; hence, the highest priority should be given to their management.

The Supply Officer consolidates procurement requests based on the department heads' submissions and procurement regulations, while the pharmacist processes the requests with respect to drug specifications. The Hospital Therapeutic Committee reviews annual procurement plans for pharmaceuticals and other medical supplies before they are finalized.

### 2 Hospitals submit their annual procurement plans.

In July, hospitals submit two sets of their annual procurement plans: one copy to the Provincial Therapeutic Committee (PTC) and the other to the General Services Office. The PTC reviews the plans for compliance with the PNDF, checks the specifications for the bid, and

forwards the approved plans and specifications to the GSO. Inaccurate or inadequate APPs are returned to the concerned hospital(s) for correction. Revised annual procurement plans are resubmitted to the PTC for review.

### 3 The GSO undertakes the bidding process.

The GSO consolidates the plans and specifications from the 14 hospitals to arrive at aggregated quantities for each product. These aggregated quantities represent what will be procured, which is specified in the tender documents as the bid quantity. The bid documents also provide a description of each product—preparation, formulation, and so on.

The GSO entertains offers from prequalified suppliers. All suppliers interested in participating in the procurement process are expected to prequalify every year for the products they want to sell. Prequalification is



ne, product quality, and past supplier performance.

hen the adjudication process is complete, the GSO sends a notice to all hospitals announcing the winning suppliers and their prices for all ordered products. A copy is also sent to all suppliers who participated in the bidding. The entire bidding and award process is completed by the end of the year.

#### 4 Hospitals prepare and submit purchase requests.

Hospitals are required to prepare and submit quarterly purchase requests. Purchase requests are based on the hospitals' approved annual procurement plans, inventory management spreadsheets, and availability of funds.

A photocopy of a bank statement or deposit slip from the hospital accompanies purchase requests to validate that funds are available for requisitions submitted. Funds for medical supplies come from an LGU's appropriation for maintenance and Other Operating expenses, while funds for the procure-

ment of drugs come from the Trust Fund, which is financed by the sale of drugs. The processing of purchase

requests for medical supplies takes longer because funds for these supplies depend on the quarterly release of the



### PURCHASE REQUEST FOR QUARTERLY ORDERS

Purchase Request No. \_\_\_\_\_ Date \_\_\_\_\_

To General Services Office, at Lingayen, Pangasinan Province

From Community Medicine District Hospital at \_\_\_\_\_ Customer Code \_\_\_\_\_

Procurement Period \_\_\_\_\_ Expected Date of Delivery \_\_\_\_\_ Deliver to \_\_\_\_\_

Value of Order P. \_\_\_\_\_ Funded by \_\_\_\_\_

I hereby certify that the supplies listed in attached order form are necessary for maintaining stocks of essential drugs, and for official use at the above-mentioned health facility.

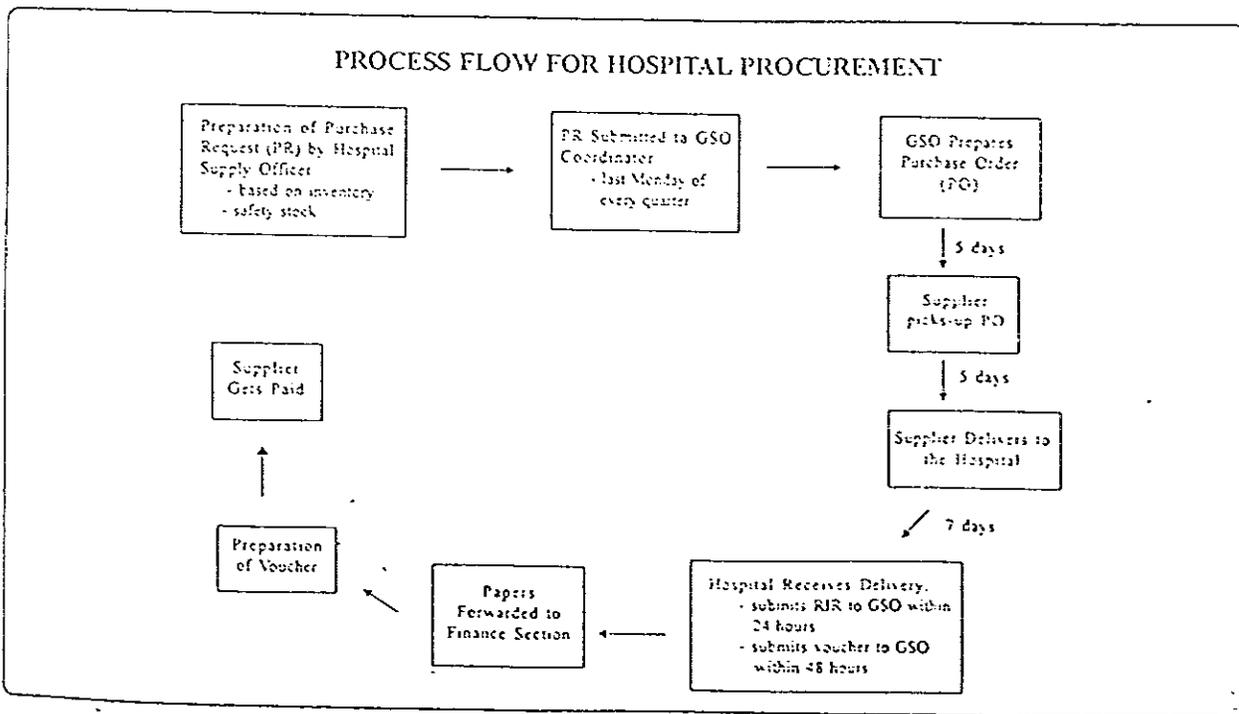
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Purchase Request Prepared by Pharmacist/Supply Officer	Chief of Hospital
Date	Date
Local Chief Executive	
Date	

**CERTIFICATION**

(1) Appropriations Available	(2) Estimated Expenditure Obligated	Funds Available
Budget Officer	Chief Accountant	Prov. or Dist. Treasurer

From Whom Purchased	Order		Qty.	Cost	Unit
	Number	Date			



internal revenue allotment to LGUs from the Government of the Philippines. However, if hospital revenues are high, as reflected in the bank statement, processing may be expedited.

The hospital's Supply Officer prepares two sets of purchase requests, one for those to be charged to the General Fund (medical supplies) and another for those to be charged to the Trust Fund (drugs). The quarterly requirement for a particular product is determined using the following formula:

$$\text{Quarterly request} = \text{maximum stock level (MSL)} - (\text{stock on hand} + \text{stock on order})$$

$$\text{where MSL} = \text{average monthly consumption (AMC)} \times (\text{procurement lead time in months} + \text{review period in months} + \text{buffer stock in months})$$

To illustrate: If we assume that lead time = 0.5 months, review period = 3 months, buffer stock = 1 month for Class V, and AMC = 100 units, then  $\text{MSL} = 100 \times (0.5 + 3 + 1) = 100 \times 4.5 = 450$  units.

If the quantity on hand at the time the purchase request is placed is 200 units, and stock on order is 100 units, the order quantity =  $450 (\text{MSL}) - (200 + 100) = 150$  units. Hence, 150 units is the quantity to be requested from the GSO.

All purchase requests are submitted to the GSO. To facilitate the processing of purchase requests, the GSO has assigned four coordinators, each of whom handles all requisitions for a specific cluster of hospitals. The coordinators advise the Hospital Chiefs or Supply Officers in their respective clusters about the deadlines for submitting purchase requests. Reminders are given at least four days before the deadlines. The coordinators keep a record of all communications and

follow-ups with the hospital, indicating dates, time, and persons spoken to.

### 5 The GSO consolidates the purchase requests and prepares purchase orders.

The GSO consolidates the purchase requests from the 14 hospitals and prepares one purchase order for each supplier and each hospital for accounting purposes. For example, if a product requested by all 14 hospitals will be obtained from the same supplier, the supplier will receive 14 different purchase orders for the product. The GSO issues the purchase orders to the first supplier selected by the PBAC, and to the second supplier, in case the first supplier is unable to deliver. The purchase orders, signed by the Governor, are ready for the winning suppliers to pick up five working days after the requests are received.

### 6 The suppliers pick up the purchase orders.

The suppliers are given a maximum of five working days within which to pick up their purchase orders. The hospital cluster coordinators remind the suppliers to pick up their purchase orders three days before the deadline and record all follow-up calls and faxes. The hospitals, in turn, are informed when the purchase orders are picked up.

### 7 The suppliers deliver the products and the hospitals inspect and receive deliveries.

The suppliers have up to seven working days from the receipt of purchase orders to deliver the products specified. All deliveries are made directly to the hospitals. If suppliers fail to deliver on the appointed date, the hospital Supply Officer informs



**RECEIVING AND INSPECTION REPORT**

NAME OF HOSPITAL \_\_\_\_\_

IN THE PROVINCE OF PANGASINAN

RR# \_\_\_\_\_ Supplier's name \_\_\_\_\_

Invoice No. \_\_\_\_\_ FR# \_\_\_\_\_

PC# \_\_\_\_\_ Date Received \_\_\_\_\_

Number of shipping cartons received \_\_\_\_\_

Certify that from external inspections, all cartons appear to be durable and without damage except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Certify that all items on the invoice and the purchase order mentioned above were received and, after inspection, intended for transfer to medical store except as follows (if marked on the invoice):

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Pharmacist \_\_\_\_\_ Date \_\_\_\_\_ Supply Officer \_\_\_\_\_ Date \_\_\_\_\_

he cluster coordinator so appropriate actions may be taken.

Hospitals receive only products that have corresponding purchase orders received by the GSO and that meet the specifications in the purchase order. The Supply Officer and the resident doctor inspect medical supplies. Deliveries of drugs are inspected by the pharmacist and the resident auditor.

The Supply Officer prepares the Receiving and Inspection Report, signed by the Supply Officer and the doctor (pharmacist or medical technician), and submits a copy to the GSO within 24 hours from receipt of deliveries. The Supply Officer likewise prepares the corresponding voucher, signed by the hospital chief, accountant, and auditor and forwards it to the GSO within 48 hours.

For the products delivered are acceptable, the end-user completes Product Problem Report and submits it to the Hospital Therapeutic Committee and the GSO for notation and action. The Hospital Therapeutic Committee performs one essential quality control function: reporting any preparation suspected to be of poor quality. It also regularly sends drug samples to the Bureau of Food and Drugs for analysis.

**The LGU processes payments to suppliers.**

The LGU pays suppliers on a quarterly basis against actual deliveries made to a particular hospital, provided that supporting documents, such as the purchase request, purchase order, invoice of allotment, delivery receipt, Receiving and Inspection Report signed by the Hospital Inspection Committee, and voucher, are complete. All documents pass through the different offices of the Finance Department. The Budget Office certifies that funds are available; the Accounting Office, which conducts a pre-audit, obligates the

**PRODUCT PROBLEM REPORTING FORM**

Hospital name: \_\_\_\_\_ Complaints: \_\_\_\_\_ Date: \_\_\_\_\_

---

Product Name, Strength: \_\_\_\_\_

Dosage Form: \_\_\_\_\_

Manufacturer/Brand name: \_\_\_\_\_ Lot/ Batch Number: \_\_\_\_\_

Current Stock Level: \_\_\_\_\_

Use this space to describe the specific problems experienced in detail. Some common problems are listed in the page below, to serve as a guide.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Samples included: Yes  No

<input type="checkbox"/> No drug action	<input type="checkbox"/> Delayed action	<input type="checkbox"/> Poor Stability
<input type="checkbox"/> Late delivery	<input type="checkbox"/> Poor Packaging/Labeling	<input type="checkbox"/> Patient Acceptance
<input type="checkbox"/> Short life	<input type="checkbox"/> Equipment incompatibility	

Submitted by \_\_\_\_\_ Noted by \_\_\_\_\_

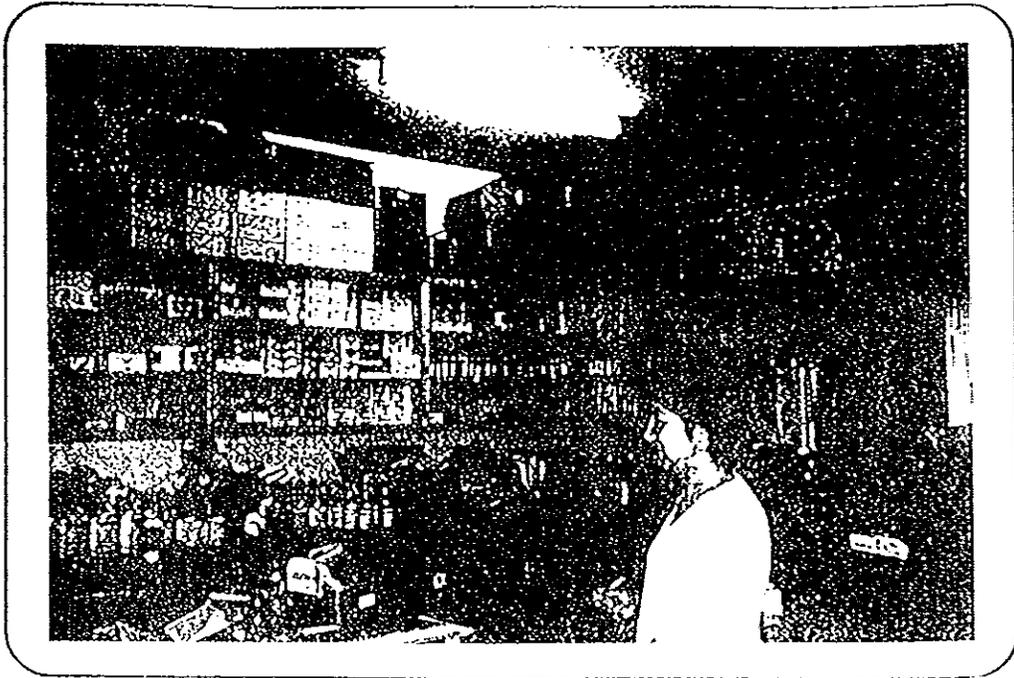
funds, processes the voucher, and prepares advice of release to the bank; and the Treasurer's Office prepares and releases the check.

**Results**

With implementation of the pooled procurement system, the Province of Pangasinan was able to procure drugs and medical supplies at much reduced prices, enabling the province to realize sizeable savings and revenues. A baseline survey conducted in 2000 showed that the new pooled procurement system had reduced prices of a set of indicator drugs and medical supplies by an average of 51%, compared to corresponding prices paid by the GSO in 1999 using canvass procurement (also known as competitive negotiation) where the buyer approaches a limited number of selected suppliers (typically at least three) for price quotations (see Table 1). The savings achieved would be higher

if we account for inflation. The gains would also be higher if the prices were in US dollars, considering the recent depreciation of the Philippine peso.

Hospitals are now able to procure needed pharmaceuticals with limited resources and are assured of having stocks of essential drugs every quarter. The quality of drugs and medical supplies is also assured because only suppliers accredited by the Department of Health are allowed to participate in the bidding process. Clients, therefore, are assured of cheaper and better-quality products. Hospital Chiefs regard this as an opportunity to use savings from their Maintenance and Other Operating Expenses budget to purchase new equipment, renovate their hospitals, or buy nonessential but fast-moving products, such as vitamins and reagents for laboratories.



Meanwhile, doctors have been able to prioritize pharmaceuticals and determine the quantity of drugs needed using VEN analysis to reduce the incidence of stock-outs of essential drugs. The GSO has used VEN analysis as a tool for determining and monitoring procurement of Class A

products. Properly managed, the procurement of these products can be a potential source of savings. Other benefits of the system include: rationalized medical supplies; Committees, (2) an increase in effective and frequent requests for

for both hospitals. (3) clear lines of the procurement the flow of activities (5) good results have improved toward manage- (6) introduction of



Integrated Family Planning and Maternal Health Program

Program Management Technical Advisors Team

**PROVINCIAL POOLED PROCUREMENT  
PROGRAM**

**FOR**

**THE PROVINCE OF PANGASINAN**

**PROCEDURES MANUAL FOR THE PURCHASE OF  
DRUGS AND MEDICAL SUPPLIES**

**Vimal S. Dias  
Roberto F. Rosadia  
Elvira Beracochea**

**Management Sciences for Health**

**USAID Contract No. AID 492-C-00-95-00093-00**

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**INTEGRATED FAMILY PLANNING AND MATERNAL HEALTH PROGRAM (IFPMHP)**

Unit TN No. 4, 10th Floor, Times Plaza, U.N. Avenue cor. Taft Avenue, Ermita, Manila  
Tel. No. (632)525-7145/52/56 Fax no. (632)525-6086 E-mail: [mshophil@info.com.ph](mailto:mshophil@info.com.ph)

USAID Contract No. 492-C-00-95-00093-00





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Unit TN No. 4, 10th Floor, Times Plaza  
U.N. Avenue cor. Taft Avenue, Ermita, Manila  
Telephone Nos.: (632) 525-7145/52/56  
Fax No. (632) 525-6086

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# About Management Sciences for Health

Management Sciences for Health (MSH) is a private, nonprofit organization dedicated to closing the gap between what is known about public health problems and what is done to solve them.

Through technical assistance, training, systems development, and applied research, MSH helps decision makers throughout the world use techniques of modern management to improve the delivery of health and family planning services.

MSH collaborates with public- and private-sector counterparts in population, maternal and child health, information for management, drug management, health reform and financing, and management training. Since its founding in 1971, MSH has provided assistance in these areas to managers in over 100 countries. MSH's staff of 300 is based at its headquarters in Boston, two offices in Washington DC, and many field offices throughout the world.

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Acronyms

# Introduction

The Program Management Technical Advisors Team (PMTAT) is part of the Integrated Family Planning and Maternal Health Program (IFPMHP) funded by the United States Agency for International Development (USAID). PMTAT provides technical support to the Department of Health and Local Governments Units (LGU) through the implementation of the LGU Performance Program (LPP). LPP is a partnership of the DOH and the LGUs to improve the capability of LGUs to expand the delivery of high quality family planning and selected maternal and child health services within the context of a devolved health system.

The efficient management of hospitals is essential to support the delivery of family planning and maternal and child health services. Unfortunately, devolved hospital services have deteriorated and fail to provide the referral and support services for effective primary health care. Outdated or poorly maintained equipment, run-down facilities, lack of qualified staff and inadequate drugs and supplies are some of the problems that prevent these hospitals to be accredited and provide services to beneficiaries of the National Health Insurance Program (NHIP). In addition, hospitals are an increasing drain to the already limited local resources. Local authorities, who do not have capacity to generate more resources, are requesting that DOH take these devolved hospitals back. This may revert all the investments of the devolution process.

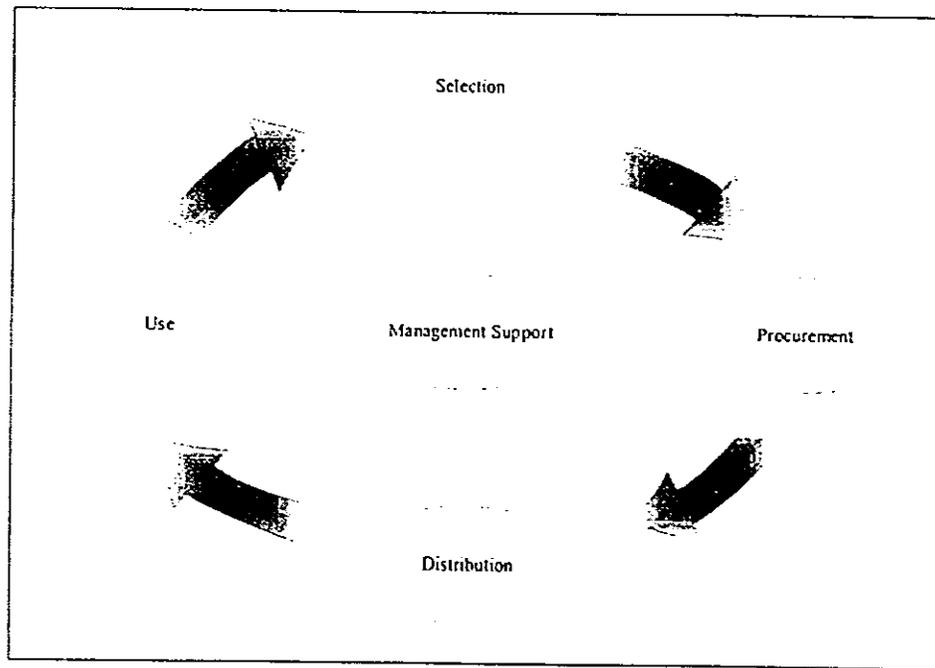
The Province of Pangasinan was chosen as one of the sites to initiate the improvement of the performance of devolved hospital services. The first performance area chosen for improvement was drug procurement. The province is responsible for procuring drugs and other medical supplies for its 14 hospitals and asked PMTAT for assistance to develop a more efficient procurement system. Based on the experience of Management Sciences for Health (MSH) in the Province of Pangasinan and in decentralized health districts in other countries, PMTAT is pleased to present this procedures manual for improving the availability of essential drugs and supplies in devolved hospitals. This manual provides local provincial and hospital staff with tools to organize a new pooled procurement program that would optimize the use of their resources.

This manual was applied in the Province of Pangasinan and describes how to organize and manage the pooled procurement of drugs and medical supplies, and thus improve the provincial management of the drug supply cycle. In general, a drug supply management cycle involves four basic functions: selection, procurement, distribution and use (Figure 1). Selection involves reviewing the most common causes of disease and admission to the hospitals participating in the procurement program, identifying treatments of choice and the drugs and medical supplies

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required. Procurement includes quantifying these requirements, selecting a procurement method, managing the tender, assuring drug quality and monitoring the performance of suppliers. Distribution includes timely delivery, and efficient stock control and hospital pharmacy management. Use includes diagnosing, prescribing, and dispensing by the health staff and proper consumption by the patient. These functions constitute a true cycle because each function builds on the previous and is the basis of the next one. At the center of the cycle are the functions that keep the cycle moving, i.e. the management support systems: organization, financing and sustainability, information and human resource management.

Figure 1. The Drug Supply Management Cycle



This manual covers all the steps and procedures for improving mainly one function of the drug supply management cycle in the Province of Pangasinan, the procurement function. Since procurement is part of the cycle, the manual makes reference to selection, distribution and rational use methods that need to be in place for efficient procurement. The manual also includes guidelines on how to organize and finance the procurement program and how to improve the use of information to improve procurement practices.

The importance of developing the capacity of the provincial human resources cannot be overemphasized. This manual is one of the tools the province has to develop this local capability and efficient hospital management systems. For more information, consult PMTAT, your Regional Health Office and/or the following tools:

#### The MTP Series

The following MTP modules are available for use in hospitals in the Philippines:

1. How to improve the availability of drugs and medical supplies: The Hospital Therapeutics Committee
  2. How to improve the housekeeping and image of the hospital: The 5 "S" Committee
  3. How to improve the quality of hospital services: The Quality Assurance Committee
  4. How much drugs and medical supplies the hospital needs: Quantifying requirements for your Annual Procurement Plan (APP)
  5. Where is the hospital going? The Hospital Management Team has a vision and strategy
-

## How to use this manual

This manual, later referred to as the "Manual", describes the procedures the Province of Pangasinan implemented to manage an efficient procurement program for drugs and medical supplies needed by the 14 hospitals in the province. This Manual has been prepared in consultation with many key persons involved in drug management at hospitals, and in drug procurement at the General Services Office (GSO) of the Pangasinan Provincial Office. The successful implementation of this new procurement program is the result of this collaboration between hospital and GSO staff. Therefore, we recommend that a province considering to implement a similar program should start by holding a joint meeting with hospital and GSO staff to discuss the problems experienced with procurement of drugs and to commit to collaborate and work closely for a period of about 12 months. The leadership of Governor Agbayani was present in all these meetings and was the main motor behind the enthusiasm of all provincial staff.

The Manual also describes several new procedures developed for Inventory Control, Procurement and Information Systems introduced in the year 2000 procurement cycle to be implemented for the first time. Every year as the program gets to function routinely, there will be a need to change and improve some of the procedures mentioned in the manual. Hence, it will be important for every province to periodically review and update their manual every two years to reflect any changes and additions and to share them with other provinces implementing similar programs. The implementation of adjustments and new and more efficient operating procedures that result from the monitoring and evaluation of the program is a continuous and never-ending process. A disc copy of the manual is available in the back manual to facilitate for the provincial staff to regularly update their manual.

At the start of implementation, the procedures presented in the manual need to be studied and discussed in monthly coordinating meetings, at least one for each section in the manual. In each of these coordinating and organizational meetings, the GSO team in charge of implementing the new system will discuss and assign responsibilities to each party involved to put the new procedures to work. The GSO team will prepare an action plan for the first three months of implementations that precede the first centralized bid. After the bid takes place, the GSO team will continue to meet monthly for an hour or two to track progress. In the first year, we recommend that GSO also hold quarterly meetings with hospital staff prior to each quarterly period of preparing purchase requests to fine-tune the implementation of the new procedures. Quarterly meetings with suppliers may also prove useful to enforce compliance with bidding terms and gain their support and collaboration for solving inevitable delivery problems.

If you are trying to decide whether this new provincial pooled procurement program is appropriate for your province consider the following rational drug management standards. If these are the characteristics your province is looking for, this manual will be helpful to your province.

These principles<sup>1</sup> are the backbone of the provincial pooled procurement program (4P):

1. Purchases are conducted by generic name or international nonproprietary names (INN) in accordance with the Generics Act of 1988.
2. Purchases are limited to a list of essential drugs selected by the Hospital's Therapeutic Committee and reconciled by the Provincial Therapeutic Committee according to the provincial formulary to avoid duplication, select the most vital and essential products, facilitate inventory control and promote rational use.
3. The provincial formulary is based on the Philippine National Drug Formulary (PNDF).
4. The procurement program will pool the needs of all the province's hospitals to achieve higher volume and cheaper prices through economies of scale.
5. The province will select suppliers through an annual competitive bidding process based on estimated requirements as stated in the hospitals' annual procurement plan, thus simplifying the administrative work of numerous purchases and avoiding expensive emergency purchases.
6. The province will accept bids from pre-qualified suppliers in good standing with good manufacturing practices (GMP) to ensure product quality, service reliability and financial viability.
7. The prices from successful suppliers are valid for a period of 12 months, which allows the province to maximize their purchases.
8. Hospitals will place actual purchase requests quarterly based on the information provided by their inventory control system and available funds, thus avoiding stockouts.
9. To ensure the most efficient use of the available funds, hospitals will prioritize their requests using the VEN and the ABC tools (Chapter 41. Analyzing and Controlling Drug Expenditures, Managing Drug Supply, MSH 1997).

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<sup>1</sup> These 16 principles are also a checklist for you to ensure your system is effectively in place.

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10. GSO will reconcile all purchase requests and submit to successful suppliers on a quarterly basis.
11. The Provincial Treasurer will pay suppliers against actual deliveries on a monthly or quarterly basis.
12. Hospitals participating in the pooled procurement program have a "sole-source commitment" to the program, which means that they are required to avail of their quarterly requests for the required drugs from the GSO only.
13. Hospitals estimate their annual requirements for drugs and medical supplies using proper quantification methods approved by the Philippine National Drug Policy Board (NDPB).
14. The province's pooled procurement program uses a *direct delivery system*, through which successful suppliers deliver directly to participating facilities. This avoids the cost of GSO distributing to hospitals, or hospital staff having to come to the provincial capital to pick up supplies.
15. All pooled procurement procedures are written down in this manual and all provincial staff will adhere to them, thus improving efficiency.
16. The Governor will be able to monitor the most efficient use of resources using key information regarding performance of the 4P on a quarterly basis.

This Manual is intended for use by pharmacists, physicians, nursing staff, supply officers and all those engaged in initiating orders for drugs and medical supplies at hospitals, and GSO procurement staff at the GSO. Furthermore, this manual will also be a useful reference for all those participating in the drug management cycle. They will be able to understand how the procurement program works so they can also implement improvements to the other functions of selection, distribution and use of drugs within the Province of Pangasinan and in other provinces in the Philippines as well.

For more information on drug management, please refer to the handbook entitled *Managing Drug Supply*, Kumarian Press (MSH, 1997).

# Overview of the Pooled Procurement Program

The implementation of a provincial pooled procurement program (4P) proceeds in the following three phases:

- A. Program Organization
- B. Tender Management
- C. Monitoring and Evaluation

Each phase is explained in detail in this manual.

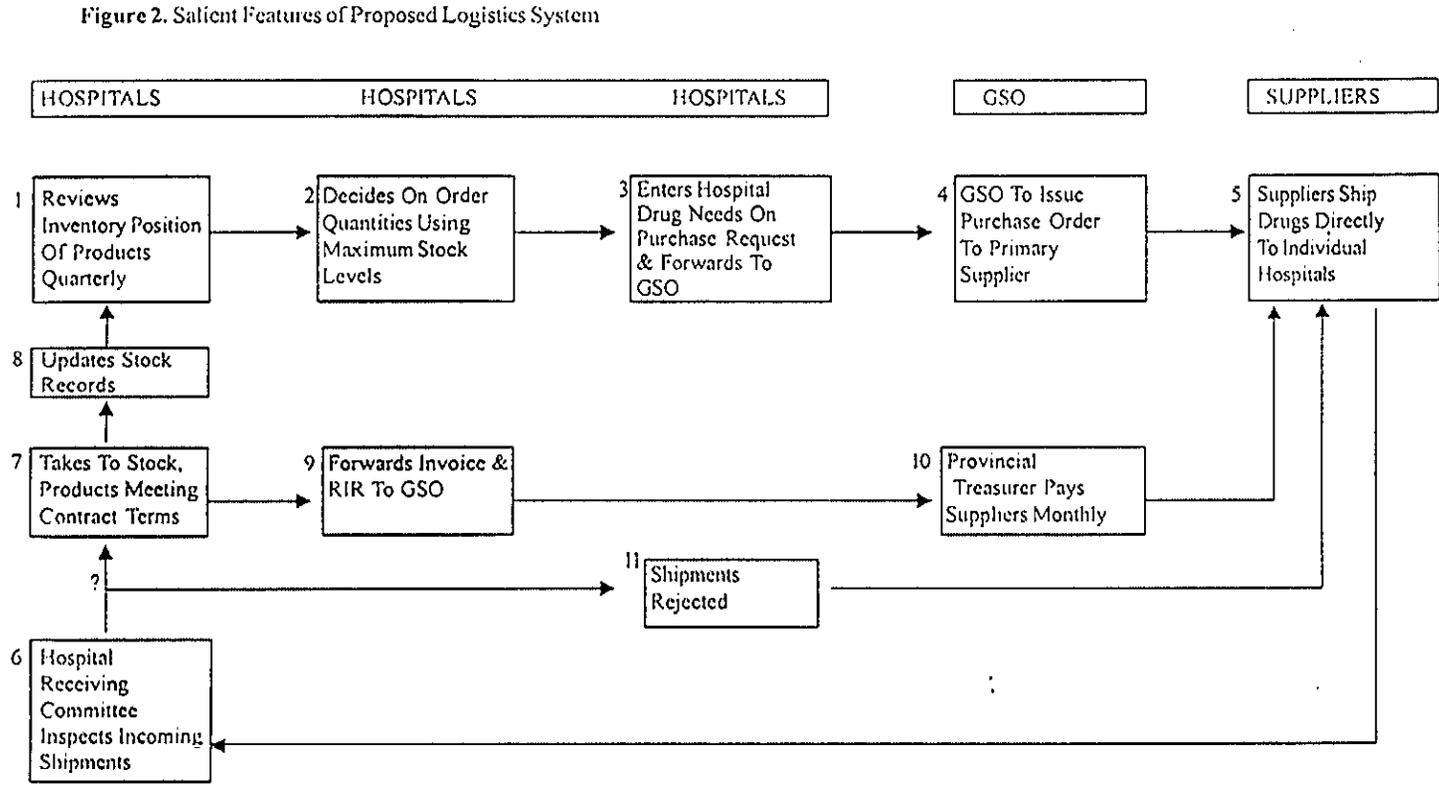
When implemented, the 4P will work this way. All the hospitals in the province, through their Therapeutics Committees (HTC), select drugs from their hospital formulary, estimate required quantities and prepare their annual procurement plans. Then, the Provincial Therapeutics Committee (PTC) reconciles the list and quantities requested, and assists GSO to reconcile these with funds available. With this information, the GSO prepares the bidding documents and the product specifications. Suppliers for all the products in the provincial formulary are regularly pre-qualified according to objective criteria. GSO then conducts the tender, awards and quarterly submits orders to the successful winners. Suppliers deliver to all the hospitals and the Provincial Treasurer pays after the required reception and inspection paperwork is accomplished, submitted and reviewed. GSO monitors supplier's performance in terms of timeliness and delivery of products according to specifications and service.

Deliveries are not systematically tested for quality, because products are already registered and sold everywhere in the Philippines. However, in collaboration with the Bureau of Food and Drugs (BFAD), the province selects random samples of products delivered to be tested for probable quality problems, especially in the case of products from new suppliers without a track record. Hospital staff report probable adverse reactions or quality problems to the Hospital Chief, the HTC and GSO. GSO communicates this to the supplier and other hospitals to make sure that the batch of the product under study is not used while the tests are being conducted. GSO will have BFAD test the sample. In the event that the test reports confirm the inadequacy of the products, the supplier will recall them and supply suitable products at its own expense. Suppliers may choose to replace the batch immediately and this will be considered as a very responsive action on the side of the supplier. GSO may apply other sanctions as stated in the bidding documents.

Hospitals are required to implement and manage their drug and medical supply inventory system, which will alert them of what and how much they need to request each quarter. The drug management information system will allow GSO and the hospitals to monitor the whole program and take actions when needed. An annual evaluation and audit will also inform decision-makers about the performance and results of the program. The program includes the rational and effective management of drug donations and supplies from other sources such as central and regional DOH.

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Figure No.2 contains a flow chart showing important features of the provincial pooled procurement program.



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# **Detailed Description of Procedures**

## 1. PROGRAM ORGANIZATION

### A. Creation or Revitalization of the Hospital Therapeutic Committee

- a. *Objective:* Establish a mechanism for developing and implementing policies for improving the selection, procurement, distribution and use of drugs and medical supplies in the hospital. The Hospital Therapeutic Committee (HTC) is the main building block for establishing and managing an efficient drug supply system. Its members have the authority to select drugs, monitor their use and develop policies to improve the availability and quality of treatment patients receive. The HTC should be empowered with the right tools to carry out their mandate as stated in the Generic Act of 1988.
- b. *Method:* The Generics Act of 1988 is the guiding document for creating your HTC. Read it and discuss it with all your hospital staff. The Philippine National Drug Board (PNDB) and PMTAT have tools for establishing and sustaining the work of Hospital Therapeutic Committees. The MTP module on how to establish or revitalize your HTC will also help hospitals get started.
- c. *Responsible:* Hospital Management and Local Chief Executives.

### B. Product Selection

- a. *Objective:* Develop a list of standard drugs and medical supplies to be maintained in stock and used at each type of hospital. This list is called the Hospital Formulary.
  - b. *Method:* Proper selection of Drugs and Medical Supplies is an important function because it impacts availability, rational use, and operating costs. Since the 14 hospitals participating in the pooled procurement program in Pangasinan are of different type, and size, it is important for the HTC of each type of hospital to select rationally a standard list of products to be maintained in stock. The HTC will prioritize their needs to live within its means. The HTC prioritizes using the VEN method, through which each product of the list is classified as vital (V), essential (E) or non-essential (N). All vital products should be procured, the number of essential products to be procured will depend on the availability of funds, and no non-essential products should be bought.
-

There are 3 types of hospitals located within the Province of Pangasinan, namely Provincial Hospital, District Hospitals, and Medicare/Community Hospitals. It is important for the GSO to have a provincial drug formulary prioritized for each of the 3 types of hospitals. Each of the 14 hospitals will develop their own hospital drug formulary and essential medical supplies list, which the PTC will reconcile into one *Standard Product List (SPL-Appendix 1)*, giving useful information, such as generic product name, dosage form, strength, pack size, and VEN Classification, medical supply specifications, etc. The SPL is the basis for developing the *Provincial Formulary*.

- c. *Responsibility*: Hospital and Provincial Therapeutic Committees

### C. Controlling Inventories of Drugs and Medical Supplies at Hospitals

- a. *Objective*: Make routine decisions on "What to Order", "When to Order", and "How Much to Order".
- b. *Method*: Many types of inventory control systems are available for controlling inventories of drugs and medical supplies. The system of choice should be capable of maintaining a good balance between the cost of carrying inventory, procurement costs, and cost of stock-outs. For a province such as Pangasinan, the use of a *Periodic Review System* of inventory control with a review period of 3 months was found to be the most suitable. This requires hospitals to raise requests on a quarterly basis (4 times a year), and forward to GSO.

This periodic review system would help hospitals in formalizing decisions on; "What to Order", "When to Order" and "How Much To Order".

#### What to order

The hospital will only request the purchase of those items whose average monthly consumption rate and inventory position indicate insufficient supply for the quarter. The PR form includes all products that may be required but the hospital will only request those vital and essential products whose stock in hand is not enough for the coming quarter. The actual number of essential drugs to be purchased will depend on the existing balance in the hospital's trust fund and on the appropriation in the MOOE.

#### When to Order

The hospital pharmacist will review the inventory position (Stock On Hand + Stock On Order) of all individual standard products at the end of each quarter, and submit the PR on the

last Monday of that quarter for the following one. That is that for the first quarter of January, February and March, the PR needs to be submitted on the last Monday of the month of December. GSO will prepare and distribute a calendar of submission dates for every year. A photocopy of the latest bank statement or deposit slip in the hospital's trust fund and a statement of how much of the MOOE will be appropriated should accompany the submitted PR.

**How Much To Order**

The quantity of each item to be ordered at each of the review times should be calculated using the following formula.

$$\text{Quantity to Order Level} = (\text{Maximum Stock Level} - \text{Current Inventory Position})$$

Where the Maximum Stock Level (MSL) is defined as:

$$\text{MSL} = \text{Average Monthly Consumption} \times (\text{Procurement Lead-Time in months} + \text{Review Period in months} + \text{Buffer Stock in months})$$

The terms used in the above formula are explained below.

- Estimated Average Monthly Consumption (AMC, is the expected monthly usage rate for the product, measured in counting units).
- GSO has estimated the procurement lead-time to be 2 weeks or 0.5 months. However, this figure would need to be closely monitored, and changed if needed based on actual lead-times.
- Review time is set at 3 months by the system in use.

When funds for drug procurement are limited, it will be logical to set buffer or safety stocks based on therapeutic value of drugs indicated by the VEN Classification system.

Safety stock allocations will be requested by the hospitals according to the VEN classification:

- For all class "V" Vital drugs, 3-1 month buffer stock. At least a minimum of 1 month safety stock should be kept in stock.
- For all class "E" Essential drugs 1-0.5-none month buffer stock. If funds are limited, no safety stock should be procured. The hospital will not order any essential drug at the expense of a vital drug or its respective one-month safety stock.

- For all class "N" Non Essential drugs, no safety stocks should be provided. The hospital will not order any non-essential drug at the expense of an essential drug or its safety stock.

#### Important!

Safety stocks are mandatory for all vital drugs. Safety levels should be of at least a month to 3 months maximum. This is to ensure that hospitals will not run out of vital drugs in the event of a delayed delivery due to suppliers' lack of compliance. In this case, GSO needs to send a PO to the second lowest bidder and this may delay delivery.

Accordingly, the MSL for a class "V" drug would work out to: . . .

$$\text{MSL} = \text{Average Monthly Consumption (AMC)} \times (0.5 + 3 + 1), \text{ or } 4.50 \text{ months of stock}$$

An example will serve to illustrate how the MSL and the order quantity could be calculated.

#### Example

Assume that the AMC is 100 vials for a given class "V" drug, lead-time is 2 weeks, the review period 3 months, quantity on hand 200 vials, and quantity on order is zero at the time of review.

$$\text{MSL} = 100 \times (0.5 + 3 + 1) = 450 \text{ Vials}$$

$$\begin{aligned} \text{Order Quantity} &= \text{MSL} - (\text{Quantity On Hand} + \text{Quantity On Order}) \\ &= 450 \text{ vials} - (200 \text{ vials} + 0 \text{ vials}) \\ &= 250 \text{ vials.} \end{aligned}$$

The *IMP* or "Inventory Management Program" can be used to facilitate the above calculations.

- c. *Responsibility:* The Hospital Pharmacist / Supply Officer.

#### D. Stock Records

- a. *Objective:* Develop and maintain a document for manually recording inventory transactions relating to issues, receipts, current stock balances, information on pipeline orders, and key information required for controlling inventories.
- b. *Method:* The supply officer and pharmacist will open a *Stock Record Card* for each SPL item held in stock. If the same product (identical product code) is available under multiple pack sizes, one stock record card should be maintained in respect of all pack sizes. For this reason, it would be best to select the counting unit in terms of the smallest unit, such as a tablet, vial or a tube. This will avoid the problem of having to deal with multiple pack sizes.

On the other hand, if the same generic drug were available in 2 different strengths, 2 separate stock cards should be maintained, as the 2 products would carry 2 different product codes. All shipments of a drug received at a hospital, irrespective of the source should be entered in stock record cards, provided they bear the same code number, and are usable. These other sources of supply outside the 4P would normally be supplies from the Regional Medical Store (RMS), donations, and local hospital purchases.

A stock record provides following type of information:

- General information regarding the product such as its code, generic name, strength, pack size, dosage form, unit of issue and unit price etc.
- Information relating to issues, receipts, stock balance, and information on what is currently on order.
- Information useful for maintaining the inventory control system such as: estimated average monthly consumption, expected lead-time, VEN & ABC Classifications, review period, latest price and Maximum Stock Level.

Appendix No. 2 has a blank Stock Record Card to be maintained at hospitals. This card has two sides. Side 1 consists of 3 parts, namely A, B, and C. Part A contains basic information about the product, as well as certain key information needed for controlling inventory (Box 1). Part B consists of information relating to pipeline orders (what is currently on order), as well as orders received and information relating to lead-times (Box 2). Lastly, part C consists of information relating to monthly consumption of the product for a given year, and the total for the year. There is provision to enter monthly and yearly consumption data for 4 calendar years,

starting from year 2000 to 2003. Consumption information relating to a month should be extracted from the column "Quantity Issued" (see Side 2 of the Stock Record Card), on a monthly basis. This task should be completed for the last month no later than the 7th day of the current month. Side 2 contains information about each reception of drugs or supplies (Box 3).

<b>Box 1</b>
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Stock Card: Side 1 Part A

<i>Product Name:</i>	Full generic name of product
<i>Code:</i>	A unique product code (To be developed)
<i>Strength:</i>	Strength of drug / size, e.g. 100mg, or 5cc.
<i>Pack Size:</i>	Number of units per pack, eg. 1000s
<i>Dosage Form:</i>	Tablet, injection etc.
<i>Unit of Issue:</i>	Unit used in issuing the product, Tablets, vials or packs of 500
<i>Issues:</i>	Number of counting units issued, based on the Requisition Issue Voucher (RIV).
<i>Lead-time:</i>	Expected average procurement lead-time in months
<i>Review Period:</i>	The period in months between 2 consecutive times for reviewing the inventory position of products
<i>Price:</i>	Hospital selling price per unit
<i>AMC:</i>	Average Monthly Consumption rate of the product. Should be updated every 6 months.
<i>VEN:</i>	Vital, Essential & Non Essential classification for drugs
<i>ABC:</i>	Classification according to ABC Value Analysis.
<i>Location:</i>	The location where the product is usually stored.
<i>Max. Stock Level:</i>	This is the maximum stock level for the product. This should be the Average Monthly Consumption (AMC).
<i>Buffer Stocks:</i>	Levels of Buffer Stock are set depending on VEN Analysis and reviewed every 6 months.

**Box 2**

Stock Card: Side 1, Part B

*Order Date:* Date of placing an order. This is the start of the lead-time period and hence should be recorded.

*Purchase Request #:* Number of the Purchase Request placed with GSO.

*Quantity On Order:* The quantity of the product in counting units that is currently on order. This information should be entered in the stock card as soon as a new PO has been placed.

*Date received:* Date order received. This date should be entered in the stock record, to assess lead-times of the procurement.

*Quantity Received:* Quantity actually received. This may differ from quantity ordered. Use RIR and Invoice to enter this information.

*Lead-time:* This is the time lapse in days between, "Date Received" and "Order Date". This needs to be calculated once.

*Expiry Date:* Expiry date relating to the lot that is expiring first.

*Remarks:* Use this space to enter any remarks if any.

**Box 3**

Stock Card, Side 2

*Date:* Date relating to a receipt, or an issue.

*Received From/Issued To:* The source of drug supply, or recipient's name.

*SIV # / RIR #:* Number of the stores Issue voucher for issues, and the Receiving and Inspection Report # for receipts.

*Quantity Received:* Actual quantity of the product received (in the unit of issue) from supplier, as per RIR.

*Stock Balance:* Number in Stock measured in the unit of issue.

*Remarks:* Enter remarks if any in this space.

It is important to make an entry with respect to any transaction made with regard to issues, receipts, and orders placed, and orders received, in Stock Record cards. These entries should be made carefully and without delay to ensure that records are kept accurate and up to date.

c. *Responsibility:* Hospital Pharmacist / Supply Officer.

## E. Raising Purchase Requests (PR) for Regular Orders

- a. *Objectives:* Identify which products should be requested, assess order quantities, and place a Purchase Request with GSO for procuring required products on a quarterly basis.
- b. *Method:* The hospital will undertake the following tasks in raising Purchase Request (PR) for regular purchases on a quarterly basis. It is important to note that hospitals will place only one request per quarter and deliveries will also be quarterly but one month apart (see Appendix 3). It is very important for hospitals to thoroughly review their procurement needs at the end of each preceding quarter before sending out the PR to GSO. GSO will assign one person to a cluster of hospitals to handle their respective PRs. This cluster coordinator will remind the hospital chiefs and supply officers of the date of submission not later than 4 days before the Monday deadline, and note in a logbook the date of submission. Reminders will may be by telephone, radio, letter (prepared and sent earlier to ensure arrival 4 days before the deadline) or personally. GSO will keep record of these actions, indicating the date and person contacted.

The pharmacist or supply officer will carry the following tasks at the end of each preceding quarter:

- Within funds available for that quarter, assess order quantities for each product held in stock on a quarterly basis.
- Use the Purchase Request (PR) form (Appendix No.3), with pre-printed product names for requesting drugs and medical supplies.
- Get approvals from members of the Hospital Therapeutics Committee to confirm VEN classification in the PR before placing it with GSO.
- Get the approval of the Chief of Hospital before forwarding the PR in 4 copies to GSO.
- Hold one copy of PR at the hospital.

### Important!

The total value of the PR should not exceed the funds available, taking in consideration the trust fund balance and MOOE appropriations. If it exceeds the maximum allowable, GSO will return the PR to the hospital. GSO cannot decide on adjustments to any PR. Only the supply office on advice of the HTC can adjust the number of products to be procured but not the quantities. The quantities are estimated based on the formula on page 17.

The second part of the PR is for obtaining relevant signatures, and the last part for internal use of the GSO. There are 2 separate preprinted forms for indicating requirements of drugs and medical supplies.

The order quantity in respect of each product should be using Maximum Stock Level and the Inventory Position. The amount calculated should be entered under column "Qty. needed" of the PO, in respect of each product.

c. *Responsibility:* The Pharmacist or the Supply Officer at the hospital should raise the Purchase Requests in respect of drugs and medical supplies on a quarterly basis.

## F. Raising Purchase Requests for Emergency Orders

- a. *Objective:* Requesting for additional supplies needed by hospitals beyond and above the quarterly and/or annual estimated requirements due to "unusually high" consumption and under emergency conditions from GSO.
- b. *Method:* In addition to normal orders placed by hospitals, in a very limited number of situations, it may become necessary for hospitals to place emergency orders to respond to epidemics, and natural disasters etc. In such instances, hospitals will have to place a supplementary request for certain products. The pharmacist or supply officer alerted by the HTC of the unusual circumstances will basically follow the same procedure outlined for raising a regular Purchase Request, but with following exceptions:
  - Use the Purchase Request Forms for Emergency Needs, instead of the form used for making regular quarterly purchases (Appendix No.4).
  - Start the Purchase Request number with an "E" to denote an emergency and enter the 4 digit facility code,
  - List the names of required drugs and medical supplies, as this form does not have pre-printed product names. The quantities will be very limited, a week at the most.
  - State the number of the emergency purchase order, starting from 1 in each year, and finally the year in which order is placed

For example, EWPDH399 would refer to the 3rd Emergency Purchase Request placed by the Western Pangasinan District Hospital, during 1999. This coding system would permit tracking of Emergency Purchases made by individual hospitals.

c. *Responsibility:* Hospital Pharmacist / Supply Officer

**Important!**

Emergency Purchase Requests should only be made in response to true emergencies, and require prior approval by the Governor's office. Emergency purchases are not to be used as a regular instrument to cover certain short falls in the normal quarterly cycle and should not exceed one-week consumption rate. Funds for these purchases will be deducted of the following quarter allocation and are not considered additional funds.

**G. Preparation of the Purchase Order (PO)**

- a. *Objective:* Consolidate the 14 PR from the hospitals and convert them in one PO for each supplier.
- b. *Method:* The GSO will prepare one PO for every supplier and for every hospital for accounting purposes. All the products supplied by that respective supplier will be on one PO for each of the 14 hospitals. For example, if one product is requested by all 14 hospitals, then supplier will get 14 POs for that same product. This is because each hospital has separate accounting. In five working days from the Monday when the PRs were received, that is by Friday of that week. GSO cluster coordinators will prepare the POs and have them signed and call suppliers to let them know the PO is ready for pick up. Suppliers have up to 5 working days to pick up their POs. GSO cluster coordinator will remind the suppliers to pick up their POs 3 days before the deadline. GSO will keep a record of the follow-up calls and suppliers' performance. The supplier signs and dates the PO at pick-up. GSO will communicate to the hospitals when POs are picked so hospitals will await the delivery in up to 7 working days from the pick-up date.

**Important!**

GSO will have suppliers designate one contact or liaison person for handling the province's purchases.

- c. *Responsible:* GSO cluster coordinators.

## H. Delivery and Reception of Hospital Supplies

- a. *Objective:* Suppliers deliver in a timely manner and hospitals receive and inspect supplies to confirm that they meet the specifications in the PO, and prepare the "Receiving and Inspection Report" (RIR).
- b. *Method:* Suppliers have up to 7 working days to delivery the products in the PO. It is expected that they will not take all 7 days to do so. If after 6 days of the notice from GSO that the PO was picked up, the hospital has not received the goods, the supply officer will inform the GSO cluster coordinator and record the call. Then, the GSO will contact the supplier and determine whether the delivery will be on time. If not, GSO will start preparation of the PO to the second lowest bidder awarded in the tender and may impose sanctions.

**Important!**

The hospital will not receive products that do not meet the specifications in the PO, or incomplete or partial deliveries for any product in the PO. Deliveries without the original PO will not be accepted.

The hospital will only receive products accompanied by the corresponding PO prepared by GSO. The hospital will submit to GSO a copy of the RIR within 24 hours after delivery, and the corresponding voucher within 48 hours. On receipt of supplies, shipment of drugs and medical supplies should be checked for the following:

- Check names, specifications, dosage form, pack sizes etc. of drugs received against what was ordered.
- Check for expiry dates as specified in contract.
- Check for any shortages / over supplies of quantities, breakages, and leakages etc.
- Check for labeling, languages used, condition of inner and outer packaging.
- Examine drugs visually for any abnormalities.

Based on the above, the Hospital Pharmacist / Supply Officer will prepare the RIR (Appendix No.5) in triplicate each time a shipment of drugs is received at the hospital. This procedure should be carried out for all drugs and medical supplies entering the hospital, including donations, laboratory samples, etc. irrespective of the source or method of procurement. A copy of the RIR should be sent or brought to the GSO for supplier performance monitoring.

Based on the RIR, supplies that are accepted will be taken to stock, and corresponding entries will be made in appropriate Stock Record Cards (Appendix No.2.) using the supplier invoice and the RIR as reference.

- c. *Responsibility:* Hospital Pharmacist / Supply Officer, and Hospital Inspection Committee Members. If deliveries are received and do not meet the specifications, the acceptance is at the staff's own risk. The GSO will not honor payments of goods different from what was bid and awarded. Required changes in the specifications need to be noted and will be used for the next annual bid.

## I. Managing Supplies within Hospitals

- a. *Objective:* Start implementation of new procedures for provincial pooled procurement program.

### Important!

Efficient procurement of drugs and medical supplies starts in the hospitals. Hospitals need to implement an appropriate bulk storage system, and a procedure to issue drugs and supplies to the Central Supply Room, the Hospital Pharmacy and other end-users.

- a. *Method:* It is important to implement a rational procedure among all hospitals for the bulk storage of medical supplies, issues to end users, and record keeping. In the absence of such a procedure, it will be very difficult to exercise proper control over inventories, or maintain any proper management information system. This information is then used for preparing the annual procurement plan, and the quarterly requests. All hospitals will use the following system and procedures and be able to answer the following three critical questions.

### 1. Where is our hospital going to store the Bulk Stocks?

When any product, (drugs and medical supplies) is first received at a hospital, it should be first stored at the Central Storage or Warehouse. Stock Record Cards described in section 1D of this Manual should be maintained for all standard products. From the Central Medical Store, drugs are issued to the pharmacy and medical supplies to the Central Supply Room (CSR). Medical supplies should be issued twice a week to the CSR. Similarly, drugs should be issued to the Pharmacy, and other supplies to end-users twice a week. The dates and times set aside for such issues should be decided in advance by hospital authorities.

**Important!**

One especial case is the boxes of IV fluids. The quarterly supply of these boxes may be bulky due to the unnecessary overuse of IV fluids by hospitals, which makes this requirement excessive when compared to the actual number of surgical or dehydrated patients seen by the hospital. If during the preparation of the PR the pharmacist finds out that the number of boxes required for the quarter exceeds the storage capacity, the first step is for the HTC to study the case load of the hospital, review the indications for use of IV fluids, and adjust the quantities according to the rational use patterns

**2. How is our hospital going to record all inventory transactions?**

Whenever an issue is made, staff need to make an entry under the issues column of the Stock Record Card reflecting the quantity issued, date of issue, and name of user.

Similarly, when fresh supplies are received at a hospital, the quantity of a product taken to stock should be entered under the Receipts column of the Stock Record Card to reflect the quantity received, name of supplier, and date received. Accordingly, the new stock balance should also be recorded when a receipt or an issue is made from the Central Medical Store.

The amount of issues made to any user at a time should be relatively small, not more than what is needed for 3 to 5 days. This will ensure that bulk stocks of any item are always maintained at the Central Medical Store. This way, issues made from the Central Medical Store for any product over a period of time would generally reflect the true consumption rate for the product, and could be used for forecasting product requirements. If larger amounts are issued due to hoarding (this is common when staff have lived through permanent and/or long stock outs), wards may have unused stock that distort the consumption pattern and/or at the expense of other end-users that may need them.

Adherence to the above system would avoid the Central Medical Store issuing all its stock of an item to end users, as soon as fresh stocks are received from a supplier, and recording a zero balance in Stock Records.

**3. How is our hospital going to manage the "Working Stock"?**

As described above, the Pharmacy, Central Supply Room (CSR), and other end-users such as the Radiology Department and the Laboratory should draw their requirements from the

Central Medical Store. When requisitioning, all end users should use a Requisition/Issue Voucher, (RIV) in triplicate. The original and a copy should be forwarded to the Central Medical Store, and a copy maintained by the originator. The Central Medical Store should return the copy of RIV indicating quantities actually issued.

The Central Supply Room, Pharmacy and end users will continue to use ledgers for recording any receipts from the Central Medical Store, or issues made to patients, wards or end users. At the end of each month, all users will provide the Chief of Hospital with a *Monthly Usage Report* (MUR) for the previous month. These MURs should be thoroughly studied by the Chief of Hospital, the Chief of Clinics and the HTC to monitor drug consumption patterns, irrational prescribing, waste, and other losses.

It is important for all users of the system to strictly adhere to all systems and procedures mentioned above for managing supplies within the hospital. Failure to do so will certainly lead to weak inventory control, and poor accountability.

- a. *Responsibility:* Stock Records - Supply Officers / Pharmacist  
RIV - Pharmacists / Central Supply Room in Charge / and End Users  
Monthly Usage Reports - End Users

## 2. MANAGING THE TENDER

For the year 2000 procurement cycle, the province of Pangasinan implemented a pooled procurement program using pre-qualified suppliers for procuring drugs and medical supplies. This program aims at improving drug availability and the efficiency of the supply system by reducing the cost of pharmaceuticals supplied to hospitals.

This section of the Manual contains a description of how the important parts of managing a tender functioned for the procurement of drugs in the 2000 bid by the Province of Pangasinan. As the procedures are implemented by any province, they need to be monitored and evaluated and changes made to ensure the best performance. The next edition of this manual will be updated to reflect the experience of Pangasinan and other provinces implementing these new procurement procedures in further tenders.

### A. Reconciling Drug Requirements

- a. *Objective:* Determine the aggregate quantity of each product to be procured during the 12 months of the next procurement cycle, on a quarterly basis, for each hospital.
- b. *Method:* After having reviewed their hospital formulary, estimated their requirements, prioritized using VEN and ABC analysis and the budget for the following year, the HTC prepares the Annual Procurement Plans (APP). Every October for the following year, the hospital will submit the APP to the GSO and furnishes a copy to the PTC. The PTC reviews all APPs for compliance with the provincial formulary and PNDF and prepares the specifications for the bid. Then, the PTC forwards the approved plans and the new specifications to the GSO. The GSO should combine the needs specified by hospitals in their APPs, and calculate aggregate quantities needed of each individual products. These aggregate quantities  $\pm 20\%$  for each product is what is expected to be procured from successful suppliers during the next procurement cycle of 12 months. Hence, GSO will use this information for specifying the "Bid Quantity" mentioned in Tender Documents. The GSO shall maintain a detailed list of items and quantities to be procured by each hospital and forward a copy to the PTC.

*NOTE:* Until tender procedures are computerized in year 2001, GSO will employ Microsoft Excel computer spread sheets for aggregating drug needs of individual hospitals.

- c. *Responsibility:* GSO, PTC.

## B. Restricted Tenders Method and the Tender Schedule

- a. *Objectives:* During the tender the province receives bids from a set of pre-qualified suppliers in good standing with the province for supplying drugs and medical supplies. The Province wants to ensure that it will make business with reliable suppliers that have good business practices. The tender method allows the province to bid for the offers that when awarded, they are valid for a period of 1 year. The quantities to be bid for are pooled based on the annual aggregate needs of 14 hospitals.
- b. *Method:* The province uses the *Restricted Tenders Method*, i.e. only those pre-qualified suppliers are invited to bid. To implement this method, GSO needs to schedule all key activities to be accomplished, assign responsibilities for the completion of each activity, and write down and distribute the schedule. Procuring drugs and medical supplies involves the successful and coordinated completion of a variety of procedures and steps, involving many separate actors and offices in the province. If a schedule is not followed by all those involved, there is a possibility of significant delays or mistakes accruing in the tendering process, thus causing a possible break down of the supply system, loss of savings, and a negative impact upon the efficiency image of the Province.

For example, here is a schedule used for undertaking the year 2000 procurement cycle using the *Restricted Tenders Method*. Based on lessons learned, experience gained in year 2000, and impact of computerization, this schedule (table 1) should be improved and updated for the year 2001 procurement cycle and consecutive years.

- e. *Responsibilities:* Refer to table below.
-

Table 1. Restricted Tender Schedule for the Provincial Pooled Procurement Program

Key Activities	Completion	Responsibility
Determine aggregate product requirements of all 14 hospitals, and submit Annual Procurement Plans.	10/30/99	Hospitals Therapeutic Committees
Compile APP and prepare product specifications	11/10/99	Provincial Therapeutic Committee
Consolidate pooled quantities required	11/10/99	GSO
Complete Supplier Pre-qualification	11/10/99	GSO
Finalize all bidding documents	11/15/99	GSO
Call Tenders	11/20/99	GSO
Close Tenders	12/5/99	GSO
Schedule Tenders	12/20/99	GSO
Make tender awards	1/05/00	PBAC
Inform Hospitals of Awards	1/06/00	GSO
Prepare first Purchase Requests	1/10/00	Hospitals
Raise first Purchase Order to winners	1/10/00	GSO
Delivery products for the quarter	1/20/00	Suppliers
Hospitals Receive drugs	1/20/00	Supply officer
Make first Payment to Suppliers	1/27/00	Provincial Treasurer
Monitor suppliers' performance	On going	GSO

### C. Pre-qualified Suppliers

- a. *Objective:* In the 4P, GSO will only entertain offers for the restricted tender as well as canvass Emergency Purchases only from pre-qualified suppliers. The pre-qualification is to be implemented prior to the actual conduct of the tender.

**Important!**

As part of Quality Assurance, it is important to ensure that an effective supplier pre-qualification system is in use. With this in mind, GSO will conduct a comprehensive review of the current pre-qualification system on an annual basis. Based on the results of the 2000 procurement, the province will take measures to strengthen this procedure.

- b. *Method:* For pre-qualification, a supplier interested in doing business with the province should make an application to GSO giving certain commercial and technical information. In addition, the supplier is also expected to furnish certain documents from the Department of Health (DOH) and the Bureau of Food and Drugs (BFAD). All suppliers wishing to take part in the procurement process are expected to get pre-qualified for the products they want to sell on an annual basis.

The 4P will conduct annual tenders and accept bids from accredited suppliers. GSO will request the Provincial Therapeutic Committee to review applications for accreditation at least once a year and make recommendations to the Governor.

To be pre-qualified, suppliers need to submit a letter to the GSO requesting to be accredited/pre-qualify to bid and supply the following information:

1. List of drugs, medicines and medical supplies for which accreditation is solicited, with corresponding pharmacopoeial standards.
2. Valid Certificate of Product Registration (CPR) with BFAD for each product.
3. Certificate of Good Manufacturing Practices.
4. Letter of a valid representative of the supplier declaring to be in good standing with BFAD, DOH, other health institutions and be free of pending legal actions. (statutory declaration)
5. Description of quality assurance program implemented by manufacturer.
6. References from at least two reputable and reliable customers with name and contact telephone number.
7. GSO/provincial TC/regional BFAD rep may visit the manufacturing plant and assess compliance with GMP
8. Description of storage, and distribution procedures that may affect quality

GSO will pay especial attention to suppliers of "V" vital drugs and those in the "A" group as classified by the provincial TC. Especial attention will be given to suppliers of drugs with known bioavailability problems. For international suppliers, GSO may check the FDA web-site for weekly updates on product recalls ([www.FDA.gov](http://www.FDA.gov)). GSO will ensure all drugs to be purchased are included in the Provincial Drug Formulary and the Philippine National Drug Formulary.

The GSO will establish a registry of pre-qualified suppliers. The registry will include all suppliers with whom the province has or has had business with. The performance of each supplier will be recorded, especially any failure to perform or penalties imposed. The information will be made available to the PBAC in future tenders. The registry will include the following information:

1. Name of the Supplier
2. Contact person(s)
3. Contact address
4. Contact telephone number, fax, e-mail address
5. Contact number for emergencies and after hours queries
6. Accredited by DOH on \_\_\_/\_\_\_/\_\_\_.
7. Products awarded, date and quantity awarded
8. Date of purchase orders (POs) given: planned and emergencies
9. Date supplier picked up POs
10. Date delivery is due: regular and emergency deliveries
11. Date of actual delivery
12. Date of payment
13. Delivery met specifications: labeling, shelf-life, quantities, etc.
14. Comments: problems reported by end-user
15. Additional services provided by the supplier, such as overnight delivery, over the phone ordering, etc.
16. Results of any tests conducted. (Testing should be reserved for new or unknown suppliers)
17. References: \_\_\_\_\_
18. Status: e.g. accredited date—/—/00. PO cancelled on —/—00

**Important!**

GSO should request at least two references of satisfied customers with whom the supplier has had business recently. Supplier should submit name and telephone number of references. In addition, GSO should reserve the right to inspect the manufacturing plant at any time, and especially at the time the lots and batches to be supplied to the province are being manufactured.

- c. *Responsibility:* Suppliers, DOH, BFAD and GSO.

## D. Tender Documents

- a. *Objectives:* A complete set of tender documents should be made available to pre-qualified suppliers who wish to participate in tenders.
- a. *Method:* The Manual includes a disc copy of a tender document template to facilitate the preparation and adaptation of the documents by the province. The tender document template includes the following sections (appendix 8):

1. Introduction to prospective bidders. (Section A.)
2. Explanation of terms used in contract & tender documents. (Section B.)
3. General Terms of Contract (Section C.)
4. Instructions to Bidders (Section D.)
5. Letter of Compliance (Section E.)
6. List of products to be purchased / Bill of Quantities (Annexure No.1)
7. Buyer's letter to supplier for award of supply contract. (Section F)
8. Supplier's Bid Form (Annexure No.2)
9. Use of Bid Bond.
10. Use of Performance Bond.

c. *Responsibility:* GSO is responsible for preparing and processing all tender documents.

**E. Acceptance, Opening and Examination of Bids**

- a. *Objectives:* The provincial Pre-qualification Bidding and Awards Committee (PBAC) follows accepted procedures when accepting, opening and recording bids. The role of the PBAC is to be fair to all suppliers, establish transparency and avoid malpractice.
- b. *Method:* In the Philippines, there is already an established procedure for the PBAC and the GSO to follow when accepting, opening and examining bids. This procedure should be followed whenever bids are opened in respect of tenders submitted by suppliers. In addition to those procedures, GSO and PBAC need to pay special attention to the steps in the following checklist:

<b>Tender Management Checklist</b>	<b>Date Done</b>	<b>Checked by</b>
Advance notice was given to all suppliers with regard to the time, date, and place of bid opening.		
The GSO and members of the PBAC are advised of the time and place of the bid opening to ensure that they are all present at the time of opening of bids.		
The scheduled time for the deadline of submission and opening of bids was strictly followed.		
Suppliers or their representatives were allowed to be present at the bid opening.		
The GSO provided members of the PBAC with a list of accredited or pre-qualified suppliers.		
The PBAC members checked the names of the participating bidders against the list of pre-qualified suppliers.		

Tender Management Checklist	Date Done	Checked by
Bids submitted by bidders whose names do not appear on the accredited suppliers' list were returned unopened to them.		
After accepting the bids from pre-qualified suppliers, each bid was opened one by one and examined for adherence to the requirements to be submitted together with the bid. A bid that did not contain the necessary requirements was rejected and returned to the bidder.		
After an opened bid was determined to comply with the necessary requirements, the GSO numbered the bid forms submitted by a supplier (original and duplicate). This should be done for all accepted bids. The numbering system should start with 1, followed by the year. For example, 3/2000 would refer to the 3rd Bid Form picked from the tender box for the year 2000 procurement cycle.		
GSO wrote the total number of pages submitted by the supplier in front of the tender form.		
GSO checked whether the supplier's signature has been placed in the Letter of Compliance and other places where it is necessary. If not signed, GSO should immediately contact the supplier concerned and obtain required signatures.		
Key information regarding supplier quotations such as number of items quoted, price, and delivery time should be recorded in a Bid Record Form, as soon as it is opened.		
If the PBAC needed to reconvene after lunch or the following day, GSO locked the bids, affixed the proper seals and ensured their integrity.		
GSO recorded the decisions made and wrote a bid bulletin to all suppliers.		
GSO prepared and sent the Notice of Awards to first and second choice suppliers.		
GSO sent copies of winning bidders and prices to all hospitals.		

c. *Responsibility:* GSO and Members of the PBAC

## F. Collating Bids and Tender Scheduling for Adjudication

- a. *Objective:* Organize offers made by different suppliers against each product on tender, enabling the PBAC to efficiently manage the adjudication process, compare the bids and finally make awards to suppliers.
- b. *Method:* The GSO provides a tally board on which the bids being read out will be recorded on. This should be large enough for the public to view and keep track of the bidding. This ensures that the bid being recorded is the same as the one being read out.

In addition to the tally on the board and pending computerization, the GSO uses an Excel computer spread sheet for entering information relating to bids from suppliers meeting basic requirements. A sample *Bid Comparison Form (BCF)* is illustrated in Appendix No.9. The GSO should enter information quoted by all acceptable bidders in this spreadsheet. This information should be based on bids provided by suppliers in Bid Forms. This form is first signed by the person or computer operator who was responsible for originating the form, followed by his supervisor. All entries should be thoroughly checked and re-checked to ensure that this form does not contain any errors.

In the event that a supplier has submitted a bid that does not meet basic requirements, such bid should be rejected. Further, information about such bids should not be included in the BCF. However, the reasons for rejection should be clearly recorded, and information relating to these bids should be filed separately for monitoring and evaluation purposes.

Once information relating to all qualified suppliers, i.e. those who have met basic requirements, has been entered in the BCF, offers should be scheduled in an ascending order of "Comparison Unit Prices", with the lowest quotation appearing on top of the list. The "Comparison Unit Price" should reflect the price per unit, usually for the smallest unit, such as a tablet, a capsule, a vial, or ml for suspensions. This will permit price comparisons to be made even when suppliers have quoted for different pack sizes. Based on information contained in this form, and past supplier performance, members of the PBAC decides on the Primary and Secondary supplier for a given product.

Spaces are reserved for specifying names of winning suppliers, and all members of the PBAC should sign the BCF.

Excel spread sheets should be employed for producing BCFs, until an appropriate computerized database system is selected and introduced in time for the year 2001 procurement cycle. The manual also includes a disc copy of a sample BCF spreadsheet.

The PBAC should have reference prices to guide their decisions.

MSH publishes an annual "International Drug Price Indicator Guide". The Price Guide is one of the most widely distributed MSH publications and is used by many health professionals all over the world. The Price Guide is now available through the Internet through the Manager's Electronic Resource Center's (ERC) website at <http://erc.msh.org/>. The web version of the Price Guide is a collaboration between MSH's Electronic Communications Unit (ECU) and the Drug Management Program (DMP) of MSH and is the first component of the new module of the "Managing Drug Supply" section on the ERC.

c. *Responsibility:* GSO.

## G. Technical Evaluation of Bids

- a. *Objective:* Set up a Technical Evaluation Committee (TEC) for advising the PBAC on technical aspects of supplier selection.
- b. *Method:* A Technical Evaluation Committee should be set up for the technical evaluation of drugs and medical supplies offered by suppliers under the new Pooled Procurement System. This committee should consist of a Chairperson, and a team of 5 other persons who are technically competent on use of drugs, medical supplies, laboratory equipment and reagents, radiological and dental supplies.

The TEC should make their technical recommendations with respect to the 4 lowest bidders. Their evaluations should take in to account the following factors.

- The contents of "Drug Complaint" Forms, which have been forwarded to the TEC by individual hospitals, if relevant.
- Examination of samples, packaging, and labelling submitted by suppliers.
- Reports on laboratory tests conducted by suppliers / independent laboratories, and post purchase drug tests.
- In case of drugs, check specifications and pack sizes offered by suppliers, in relation to specifications mentioned in the tender.
- In case of X-Ray and other medical supplies, ensure that supplies offered are compatible with hospital equipment.

The TEC should submit their recommendations to the PBAC, prior to bids being finally adjudicated by the PBAC.

The TEC will forward its recommendations to the Chairman of the PBAC. The information will list the 4 lowest acceptable bids received. There is provision to write the names of up to the

4 lowest suppliers below Supplier Names No.1, 2, 3 & 4. For each supplier, TEC 's comments should be entered against the 6 criteria mentioned in the form, where relevant. The last space is reserved to provide information on the overall technical evaluation of each supplier. The following symbols could be used to indicate the overall technical recommendations for any supplier. If there are any additional comments to be made, indicate these against the space next to "Additional Comments".

- HR - Highly Recommended
- R - Recommended
- NR - Not Recommended

The meanings of criteria used in this form are explained below.

*Product complaints:* This should include any verified problems with regard to any product supplied by the supplier over the last 2 year period. This should also include any post purchase drug tests undertaken by GSO.

*Adherence to specifications / size:* Check supplier product specifications and samples submitted, against GSO product specification / size.

*Results of Laboratory Tests:* Results of lab tests done by manufacturer, independent laboratory or GSO.

*Examination of samples:* Results of visual examination undertaken by TEC, on samples provided by supplier, labelling and packaging.

*Equipment compatibility:* In case of X-ray supplies, lab equipment and spare parts, verify whether the product offered by supplier is compatible with equipment in use at various hospitals.

*Any Other Consideration:* Observations of the TEC on any other significant factor if any.

*Overall Recommendation:* This space is left for TEC to indicate their overall technical recommendations on each supplier, by use of appropriate codes.

The Committee On Awards should be guided by the overall recommendation of the TEC. Hence, the TEC should be very careful and impartial in making recommendations.

*Responsibility:* Chairperson of the Technical Evaluation Committee

## H. Adjudication

- a. *Objectives:* Members of the PBAC should select the Primary and Secondary suppliers for a given product, based on information contained in supplier bid forms, and past supplier performance.
- b. *Method:* In making annual tender awards, members of the PBAC should consider information contained in BCFs (Appendix No. 9), relating to price, lead-time, product quality, and other key information. For future purchases, the province will keep a *Suppliers Registry* to track records of suppliers relating to compliance with respect to general terms and conditions of the bid. The PBAC will also consider this information before making awards. Unfortunately, the year 2000 procurement cycle was the first restricted tender and there was very little or no information available regarding supplier performance. Future tenders will benefit from the information kept by GSO on the performance of those suppliers awarded in the year 2000. Once a *Supplier Performance Monitoring System* has been developed and introduced, and the current supplier pre-qualification system strengthened, it will become possible for members of the PBAC to make better supplier selection decisions.

### Important!

The members of the PBAC have to make awards based on the lowest evaluated bid, and not necessarily on the lowest price. The lowest price is not always the best choice. This is because inexperienced suppliers often quote below market prices for products in hope of getting business. However, it is very doubtful whether such suppliers could actually supply a quality product according to terms and conditions mentioned in the bidding document. It is important to note that invisible costs relating to poor supplier selection could be very significant, in terms of human suffering, waste of scarce resources, need for expensive emergency purchases, and time. All this would affect negatively the impression provincial and hospital staff will have of the new provincial pooled procurement program and could mark its end.

- c. *Responsibility:* Members of the PBAC

## I. Tender Awards

- a. *Objective:* Announce prices offered by the First and Second suppliers selected by the PBAC.
- b. *Method:* Employ the form shown in Appendix No. 10 for indicating prices offered by first and second successful suppliers with respect to all tendered products. GSO should forward this information to all hospitals soon after the completion of the adjudication process. A copy of this form should also be sent to all suppliers who participated in the tendering process and should be posted in the provincial bulletin board.

**Important!**

Hospitals should use this information relating to prices for estimating the value of Purchase Requests placed with GSO, and for drug pricing.

- c. *Responsibility:* GSO.

## J. Managing the Purchase Requests from Hospitals

- a. *Objective:* GSO should place Purchase Orders (PO) against Purchase Requests placed by individual hospitals, with the first supplier selected by the PBAC, and with the second supplier only if the first supplier is unable to perform.
- b. *Method:* GSO will identify one person, the cluster coordinator, to handle a number of hospitals and their requests and monitor suppliers' performance. Depending on the quarterly PRs placed by a hospital, the GSO staff should identify the first supplier selected by the PBAC to supply each of the products listed in the PO. Accordingly, Purchase Orders should be placed with selected suppliers to provide and deliver to all hospitals all the products listed in the quarterly PO.
- c. *Responsibility:* GSO.

## K. Making Supplier Payments

- a. *Objective:* The Provincial Treasurer should pay suppliers on a quarterly basis against complete deliveries made to a particular hospital, provided supporting documents such as the RIR, voucher and copy of the invoice are made available.
-

- b. *Method:* On receipt of supplies at a hospital, those responsible for receiving and inspecting the shipment of medical supplies raise a RIR. See section 1H for details. A copy of the RIR and the invoice needs to be forwarded to GSO without delay. On receipt of these documents, GSO then, makes arrangements with the finance section to pay the supplier.
- c. *Responsibility:* Provincial Treasurer, Provincial Budget Officer, Provincial Accountant, GSO.

## L. Quality Assurance

- a. *Objectives:* Suppliers, GSO and Hospital staff work together to ensure that each drug reaching a patient is safe, effective and acceptable through use of a comprehensive *Provincial Quality Assurance Program (PQAP)*.
- b. *Method:* There are many indispensable activities and procedures necessary for establishing an effective PQAP for improving the drug supply management system in a province such as Pangasinan. These are not only limited to the procurement function. QA procedures span across all key functions of the drug supply cycle, namely, selection, procurement, distribution and use. A PQAP should include:
  - Proper supplier selection. The current supplier pre-qualification system needs to be strengthened to include pre-qualified suppliers for all the products the province needs.
  - Comprehensive bidding documents, and monitoring of the tender management process to ensure that terms and conditions of the bid are enforced.
  - Random post purchase drug testing for quality, especially if from suppliers of unknown previous performance.
  - Visits to the manufacturing plants of main suppliers (not more than 10 suppliers usually account for 80 % of the province's drug purchases) and have technical staff assess compliance with good manufacturing practices (GMP).
  - An effective Supplier Performance Monitoring System and updated suppliers' registry after every purchase or delivery.
  - Rational Prescribing and Dispensing policies and monitoring of these practices in all 14 hospitals, especially for selected "V" (vital) drugs and for "A" drugs, i.e. those that account for approximately 70 or 80% of the provincial expenditures.
  - A system for Hospital Therapeutic Committees to investigate and report probable drug quality problems or adverse reactions.
  - Proper storage facilities and storekeeping practices for drugs.

A Provincial Quality Assurance Program (PQAP) in the lines outlined above would need to be developed and introduced step by step. Since this activity cuts across many different areas of the drug supply system, and also requires the cooperation of many types of persons, it will be rather difficult to simultaneously implement all components of the proposed QAP at the same time the province is implementing a new procurement program. Hence, a gradual approach focused on the procurement function first is recommended.

As the Province of Pangasinan progresses in the implementation of the procurement program, then the focus can be shifted to develop a comprehensive QA Program. The QAP will include new interventions that are necessary for supporting the program, methods to be used, forms / computer systems to be employed, and who should be responsible for each key component of the program.

The type of work mentioned above, is yet to be undertaken, and once completed, should be included as part of this Operations Manual.

- c. *Responsibility:* A single person can not ensure the quality of all the drugs and medical supplies purchased. The province has to engage the efforts of many dedicated persons: hospital pharmacists, supply officers, dispensers and prescribers, procurement officers at GSO, members of Hospital Inspection Committees, the hospital and provincial therapeutic committees, and the members of the PBAC.

## M. Product Problem Reporting System

- a. *Objective:* Establish a problem reporting system for providing feedback on poor products.
- b. *Method:* All hospitals participating in the pooled procurement system should use a Product Problem Reporting form for reporting any problems experienced with regard to use of drugs and medical supplies. This form should be prepared in triplicate. The original should be dispatched to the Chairman of the Technical Evaluation Committee, with a copy to GSO. A copy should also be maintained at the hospital. When presenting this form, remember to send a few samples of the drug or product in question, so that GSO can have BFAD perform the appropriate tests.

A prescriber or pharmacist who wishes to make a complaint about any problems experienced in using a product should fill this form. The information would provide the TEC and PBAC with valuable feedback about the product and the supplier in future tenders when making supplier selection decisions.

- c. *Responsibility:* Chief Of Hospital

## N. Suppliers Performance Monitoring System

- a. *Objective:* Inform the members of the Technical Evaluation Committee and the PBAC in making supplier selection decisions.
- b. *Method:* GSO records strengths and weaknesses of suppliers, based on the experience the province had with products each supplier delivered to hospitals. Such a system should cover both technical and commercial performance of suppliers. An effective, comprehensive and an impartial Supplier Performance Monitoring System (SPMS) is rather difficult to develop and implement unless GSO assign one of its staff the task of communicating with the hospitals and recording the information in the each suppliers' file. When the database is established, the Pre-qualification Committee, the TEC and the PBAC can have access to each supplier's file for review prior to award.

In this system, each delivery of products to a hospital by a supplier under the Pooled Procurement System, within a given procurement cycle is evaluated in terms of commercial and technical performance. A form should be opened for each supplier who has been made an award for supplying a product. If a supplier has been awarded 5 products, it would be necessary to open 5 forms, one form per product. These forms are placed in the supplier's file and are used for recording supplier performance. Information inputs for filling this form is gathered from following sources.

- The Product Problem Reporting Forms forwarded by individual hospitals regarding a product/s. However, an entry on this form should only be made after the TEC has properly verified the information provided, and tested samples submitted by a hospital
- Results of any post purchase laboratory tests conducted on the product
- Delivery inspection reports
- Based on audits made for Good Manufacturing Practices and Good Laboratory Practices.
- Commercial performance: timeliness to delivery, other services or added value, promptness to clarify or solve problems, etc.

If at the end of a procurement cycle, no adverse feedback has been received regarding a product / supplier, against any particular criterion listed on the Supplies Performance Monitoring Form, the symbol "SP" (Satisfactory Performance) should be entered against this cell. In case there has been a problem associated with a criterion (that has been verified), GSO staff states the specific problem in the cell provided for this purpose.

It would be best to establish a computer database for containing information mentioned above. However, until a suitable computerised system is developed, a manual system using forms should be employed for building up a reliable supplier performance database.

Once the database has been established for year 2000 supplies, each of the 4 criteria listed in the form could be weighted in such a way that the total number of points would amount to 100 points for any product. For example, this could be 40, 30, 20, & 10 points for criteria 1,2,3 & 4 respectively. The rating system would also be designed in such a way that suppliers who have provided more products during the year (bigger sample size) would be rewarded accordingly. At the end of the year, depending on total points scored per product, and for all products, a supplier would be awarded following types of Performance Ratings.

- Grade 1 Supplier (Overall performance is very good)
- Grade 2 Supplier (Overall performance is satisfactory)
- Grade 3 Supplier (Overall performance is poor)

Until such time as the Merit Rating System is fully developed, GSO should start building a reliable database on supplier performance on the lines outlined above.

- c. *Responsibility*: For collecting information and maintaining the database, the GSO at Lingayen should be responsible. Maintaining a reliable database to monitor supplier performance is of crucial importance for the long-term success of any procurement program. Since the system depends on inputs from many sources, it would be best for a senior officer at GSO to be in charge of this function. This person should be dedicated and impartial in data entry. If data entry is inaccurate, the system would become more of a liability than an asset for making supplier selection decisions.

### 3. DRUG MANAGEMENT INFORMATION SYSTEMS

To improve efficiency and drug availability in Pangasinan, it is important to manage the new procedures of the pooled procurement program according to the guidelines provided in this manual. In addition, it is important to develop and maintain an effective drug management information system for GSO and others concerned with managing drugs in Pangasinan to monitor the performance of the drug supply system and not only the procurement program. The recommended management information tools and reports to be generated by GSO and the hospital pharmacists on a regular basis are described below.

#### A. ABC Value Analysis

- a. *Objective:* It is customary for a small proportion of the range of products used by a hospital to account for a very large proportion of the total Dollar or Peso Usage Value of all products. An ABC Value analysis based on annual procurement costs would help identify high value Class "A" items utilizing a big proportion of procurement resources.
- b. *Method:* See chapter 41 on "Analyzing and Controlling Drug Expenditures", in *Managing Drug Supply* (MSH, 1997) for details on how to perform an ABC Value Analysis. An ABC Value Analysis is being currently undertaken in all individual hospitals operating in Pangasinan.

Since the amount of funds spent annually on purchasing a drug depends on its price and quantity purchased, it is necessary to undertake an ABC value analysis at least on an annual basis. It is recommended that this exercise be undertaken during the month of February for purchases made during the 12-month period of the preceding calendar year. ABC Value Analysis should be undertaken for individual hospitals, as well as for the Province as a whole.

Results of a typical ABC Value Analysis are used for improving the performance of the drug supply system in many ways. For example:

1. Extra care will be taken when quantifying needs of the drugs and products that result in the Class "A", as they account for a large proportion of total procurement resources.
  2. In maintaining a continuous system for checking physical inventory against stock records, it pays to check Class "A" items more frequently.
-

3. For class "A" items, it is important to select relatively low levels for order quantities, or set shorter review times when using periodic review type of an inventory control system.
4. Every effort should be made for locating and selecting the best set of suppliers for class "A" products, as potential benefits and savings could be substantial.
  - c. *Responsibility:* Hospital Therapeutic Committee and Pharmacist or Supply Officer.

## B. VEN Analysis

- a. *Objective:* It is useful to classify and thus prioritize drugs according to a system of classification based on the therapeutic value of a drug, and be grouped into 3 classes, namely: Vital "V"; Essential "E"; and, Non Essential "N".
- b. *Method:* Hospital Therapeutics Committees operating in each hospital have recently completed the classification of drugs according to the VEN Classification system. For more information on how to categorize drugs according to the VEN classification system, see chapter 41 on "Analyzing and Controlling Drug Expenditures", in Managing Drug Supply (MSH, 1997).

Similar to the ABC Value Analysis, the results of the VEN Analysis too will be used for improving the effectiveness and overall performance of the drug supply system. For example:

1. The loss due to a life saving Class V drug being out of stock could be significant. Hence, it would pay to provide a higher level of buffer or safety stock in respect of class "V" drugs. See the section dealing with buffer stocks and inventory control for details.
2. For the same reasons, it is important to pay extra attention when quantifying needs of class V drugs.
3. In instances where resources are limited for drug procurement, it is important to allocate a higher proportion of available funds for procuring Class "V" Vital drugs.

- c. *Responsibility:* Hospital Therapeutics Committee.

## C. Hospital Supply Report

- a. *Objectives:* Produce annual and quarterly procurement reports and other related supply functions by individual hospitals.
-

b. *Method:* Management reports would assist those responsible for managing drug supplies to review performance, and take timely corrective action where necessary. With this in mind, two Management Reports have been developed for covering hospital operations. These are included in Appendix Numbers 11 and 12. Appendix No. 11 should be prepared using Excel spread sheets, and distributed quarterly according to the following schedule.

- Report for Quarter 1 to be made ready before 30th April.
- Report for Quarter 2 to be made ready before 31st July.
- Report for Quarter 3 to be made ready before 31st October.
- Report for Quarter 4 to be made ready before 31st January.

Appendix No. 12 is the Annual Report and should cover performance relating to the previous calendar year. This could be prepared by combining the 4 quarterly reports. Each year, distribution of this report should take place before 28th of February.

Terms used in these reports are explained below.

#### In Quarterly Report

*Value of Purchase Requests Issued:* Refers to total value of purchase orders issued by the hospital concerned for obtaining normal supplies on a quarterly basis, and Emergency supplies from GSO.

*Value of Emergency PR Issued:* Refers to total value of purchase orders issued by the hospital concerned for obtaining Emergency supplies from GSO.

*Value of Trust Fund Deposits:* Refers to the value of funds collected through sale of drugs and medical supplies to patients during the reporting period.

*Value of Donations Received:* Total value of donations received from all sources with respect to standard drugs and medical supplies, during the reporting period. If prices of donated items are unknown, they should be valued using current GSO prices.

*Value of RMS Supplies:* Refers to the total value of all standard drugs and medical supplies received from the Regional Medical Store, during the reporting period.

*Number of Products Rejected:* Refers to the number of different products rejected by those responsible for receiving supplies at hospitals, during the reporting period.

\*The format of the Annual Report is basically the same as that used for the Quarterly report. The only difference is that statistics are for the year instead for a quarter.

Reports should be distributed to following persons according to the above schedule:

- The Honorable Governor of Pangasinan
- Pharmacists and Supply Officers in each hospital
- Chiefs of Hospital
- Members of the Hospital Therapeutics Committee
- GSO staff
- Members of the Provincial Therapeutics Committee
- Provincial Health Office

c. *Responsibility:* Hospital Pharmacist and Supply Officer

#### **D. Provincial Supply Report**

- a. *Objectives:* It is useful to produce reports, quarterly and annually, relating to procurement, and other functions of all hospitals in the province.
- b. *Method:* The information contained in these reports is similar to what is contained in individual hospital reports described in section 3C above. The difference is that these reports are in respect of all 14 hospitals in Pangasinan, as opposed to individual hospitals. Provincial Supply Reports should be distributed to following persons according to the schedule given in section 3C:

- The Honorable Governor of Pangasinan
- GSO
- Members of the Provincial Therapeutics Committee
- Director of Hospitals, Provincial Health Office at Pangasinan

c. *Responsibility:* GSO, Provincial Therapeutics Committee and Provincial Health Office

#### **E. Annual Drug Supply System Performance Report**

- a. *Objectives:* Employ a one page report, containing key supply related information, and a set of indicators, for reflecting performance of the overall drug supply system and not only the procurement function in Pangasinan Province.
- b. *Method:* Information prepared and forwarded by individual hospitals, and the GSO should be employed as inputs for preparing this report on an annual basis. This report should be prepared before the 28th of February, each year.
-

An explanation of terms and a description of how to prepare this report is described below.

### Part 1 - GENERAL INFORMATION

1. *Number of Hospitals Reporting* - This would be currently 14.
2. *Total # of beds in all hospitals* - This would be the total number of beds available in all hospitals at the end of the year. Source: all hospitals.
3. *Value of Trust Fund Deposits* - Source Annual Provincial Supplies Report.
4. *Hospital General Budget* - The Hospital General Budget allocated for Hospital Supplies from the Provincial Budget. Source GSO.
5. *# Of Inpatients admitted to All Hospitals* - Source: Annual Provincial Supplies Report.
6. *# Of Out Patients Treated* - Source: Annual Provincial Supplies Report.
7. *# Of Std. Products at DHs* - Number of drugs and medical supply items held in stock as standard products at District Hospitals at year end. Source: District Hospitals.
8. *# Of Std. Products at CHs* - Number of drugs and medical supply items held in stock as standard products at Community Hospitals at year end. Source: Community Hospitals.
9. *# Of Std. Products at MCHs* - Number of drugs and medical supply items held in stock as standard products at Medicare Community Hospitals at year end. Source: Medicare hospitals.
10. *Value This Year* - Should enter values under this column, corresponding to the year for which the report is prepared.
11. *Value Last Year* - Should enter values under this column corresponding to the year previous to the year for which this report is prepared.

### Part 2 - PROCUREMENT

#### *A. Procurement*

1. *# of Purchase Orders Raised* - Source: Annual Provincial Supplies Report.
2. *Value of Purchase Orders Raised* - Source: Annual Provincial Supplies Report.
3. *Value Of Emergency Orders* - Source: Annual Provincial Supplies Report.
4. *Value of Donations* - Source: Annual Provincial Supplies Report.
5. *Value of Local Hospital Purchases* - Source: Annual Provincial Supplies Report.
6. *Value Of RMS Supplies* - Source: Annual Provincial Supplies Report.
7. *Average Lead-time Period in Days* - This should be the average lead-time calculated for a group of 20 Indicator Drugs.

8. *Availability of reduced number of indicator drugs* for all hospitals. The list of indicator drugs should include 20 commonly used drugs and medical supplies. It should mostly consist of class "A" and Class "V" products.
9. *Lead-time*, is the time difference in days, between the "Date of Receiving a Product at the hospital", and the "Date of placing the Purchase Request" for it. If the product has been ordered more than once during the year, the average lead-time should be taken as the lead-time for the product concerned. Finally, each hospital should provide the Provincial Therapeutics Committee with an average lead-time in days for their set of Indicator Drugs. What should appear in the "Annual Logistics Performance report" is the average lead-time for all 14 hospitals.
10. *% Class "A" Drugs (20%) as a % of GT*- Based on the ABC Value Analysis for Provincial Purchases, the percentage of total procurement in Pesos [Grand Total (GT) of all money spent on procurement during the year], spent on procuring the top 20% (Class "A") of the product range by value.

B. *Quality Assurance*

1. *Number of Drugs Randomly Tested* - This is the number of drugs tested by GSO during the year to assess product quality. Source, GSO.
2. *Number of Drugs Failing Test* - Number of drugs which did not meet the standards set by the testing authority during the year. Source GSO.
3. *% Of Test Failures* - (Number failing test during year / Number of Drugs Tested during year) x 100%.
4. *# of products Rejected by hospitals* -Source: Annual Provincial Report.
5. *# of Pre-qualified Suppliers* - This is the number of Pre-qualified suppliers registered with GSO at the beginning of the year. Source, GSO.

C. *Price Comparisons*

1. *The top 10 Class "A" drugs*. Based on an ABC Value Analysis performed on Provincial Purchases, 10 drugs should be selected for comparing prices. The "GSO Price" is the price from the last annual Restricted Tender, and the "International Indicator Price", is the International Indicator Price on the list developed by MSH each year. The list is available from the MSH website.
  2. *% Price Difference* - This is the percentage price difference between the Indicator price and the GSO price for a given drug. A positive number will indicate that the GSO price is higher than the Indicator Price.
-

D. *Inventory Control*

1. *% Tracer Drugs In Stock* - The number of unexpired Indicator Drugs in stock at each hospital, as a percentage of the total number of Indicator Drugs (20), as of the last day of the year (ie. 31st of December), should be reported by each hospital. What should be included in this report is the average for all hospitals.
2. *Avg. % Time out of stock over 12 months* - The average percentage time out of stock for the set of Indicator Drugs should be reported by each hospital, using the following formula.

$$= \frac{\text{Total number of stock out days for all indicator drugs} \times 100}{365 \times \text{Total Number of Indicator Drugs}}$$

What should be entered in this report is the average for all hospitals.

3. *Avg. % of Ind. Variation of Indicator Drugs* - The average percentage of individual variation is the weighted average of the absolute difference between recorded stock levels and physical counts for the set of Indicator drugs. This should be worked out by each hospital as of 31st December, and forwarded to the Provincial Therapeutics Committee.

The following formulas should be used in working out the values.

Absolute Value Of Variation = Recorded Quantity - Physical Count

$$\% \text{ of Individual Variation} = \frac{\text{Absolute Value of Variation} \times 100}{\text{Recorded Quantity}}$$

$$\text{Average \% of Individual Variation} = \frac{\text{Sum of Percentages of Individual Variations}}{\text{Total number of Percentages Calculated}}$$

What should be entered in this report is the average for all hospitals.

4. *Avg. % of Stock Records that correspond with inventory*. This is the average percentage of stock records that corresponds with physical counts for the set of Indicator Drugs. Each hospital should calculate this statistic using the following formula, on the 31st of December, and forward the result to the Provincial Therapeutics Committee.

$$\frac{\text{Number of Stock Records With No Discrepancies}}{\text{Total number of records examined}} \times 100$$

Total number of records examined

What should be entered in this report is the average for all hospitals.

#### 4. *Significant Achievements In Supplies Management For the Year*

This space should be employed for recording any significant achievements made during the year in respect of; Procurement, Management Information Systems, Quality Assurance, Inventory Control, Quantifying Drug Requirements, and Rational Drug Use.

The Report should be distributed to following persons.

- Honorable Governor of the Province of Pangasinan
- DHO
- GSO
- Provincial Health Office
- All Chiefs of Hospitals
- Members of the Provincial Therapeutics Committee

- c. *Responsibility:* This is an aggregate Performance Report, requiring information inputs from many sources: the GSO, the individual hospitals and the provincial health office. However, the overall responsibility for preparing this report before 28th of February, should rest with the Provincial Therapeutics Committee.

## F. Baseline Evaluation

- a. *Objective:* Determine the effectiveness of the provincial pooled procurement program.
- b. *Method:* Each hospital gathers and reports indicator-based data on the availability and management procedures of drugs and medical supplies. (Bobby, in 5 lines of less, please describe the methodology and list the indicators used, then refer readers to the upcoming report for more information)
- a. *Responsibility:* HTC members and all hospital staff.

# Appendices

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APPENDIX NO. 1 – STANDARD PRODUCT LIST

STANDARD PRODUCT LIST

Level of use : \_\_\_\_\_ Hospital  
 Date prepared : \_\_\_\_\_ Prepared by :

No.	Product Code	Product Name	Dosage Form	Strength / Size	Standard Pack Size	VEN / ABC	Remarks
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

APPENDIX NO. 2 - STOCK RECORD CARD (Side 1)

STOCK RECORD CARD

A. Product Information							
Generic Name:			Code:	Strength:	Dosage Form:		
Class VEN:		Unit of Issue:		Size:	Pack Size:		
Class ABC:		Unit Price:		Buffer Stocks:			
AMC:		Max. Stock Level:		Location:			
Review Period:		Lead-time:					

B. Orders Placed								
	Order Date	Purchase Request No.	Quantity on Order	Date Received	Quantity Received	Lead-time	Expiration Date	Remarks
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

C. Consumption Information														
Year	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total	Remarks
2000														
2001														
2002														
2003														
2004														
2005														



# APPENDIX 3: PURCHASE REQUEST FOR NORMAL ORDERS

## PURCHASE REQUEST FOR QUARTERLY ORDERS

Purchase Request No.: \_\_\_\_\_

Date: \_\_\_\_\_

TO: General Services Office, Lingayen, Pangasinan Province

FROM: Community/Medicare/District Hospital at \_\_\_\_\_

Customer Code \_\_\_\_\_

Procurement Period: \_\_\_\_\_ Expected Date of Delivery: \_\_\_\_\_

Deliver to: \_\_\_\_\_

Value of Order: P \_\_\_\_\_

Funded by: \_\_\_\_\_

I hereby certify that the supplies listed in attached order form, are necessary for maintaining stocks of essential drugs, and for official use at the above-mentioned health facility.

Purchase Request Prepared by:

Requisitioned by:

\_\_\_\_\_  
Pharmacist / Supply Officer

\_\_\_\_\_  
Hospital Chief

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

Approved:

\_\_\_\_\_  
Gov. Victor E. Agbayani

\_\_\_\_\_  
Date

### CERTIFICATION

Appropriations Available:

Estimated Expenditure  
Obligated:

Funds Available:

\_\_\_\_\_  
Provincial Budget Officer

\_\_\_\_\_  
Provincial Accountant

\_\_\_\_\_  
Provincial Treasurer

From Whom Purchased	Order		Quantity	Cost	Unit
	Number	Date			

Explanation of terms contained in PR

*Purchase Order No.* - It is important to provide a number for each PO. Following numbering procedure is recommended. Each facility participating in the program will have a 4-character facility code followed by quarter and year for which supplies are needed. For example, the code WPDHQ199 will mean that PO is from the Western Pangasinan District Hospital, for first Quarter of 1999. A full set of customer codes has to be developed for all 14 hospitals.

*Date:* Date of raising the PR.

*Customer Code:* Use the customer code mentioned above.

*Procurement Period:* This is usually set at 3 months.

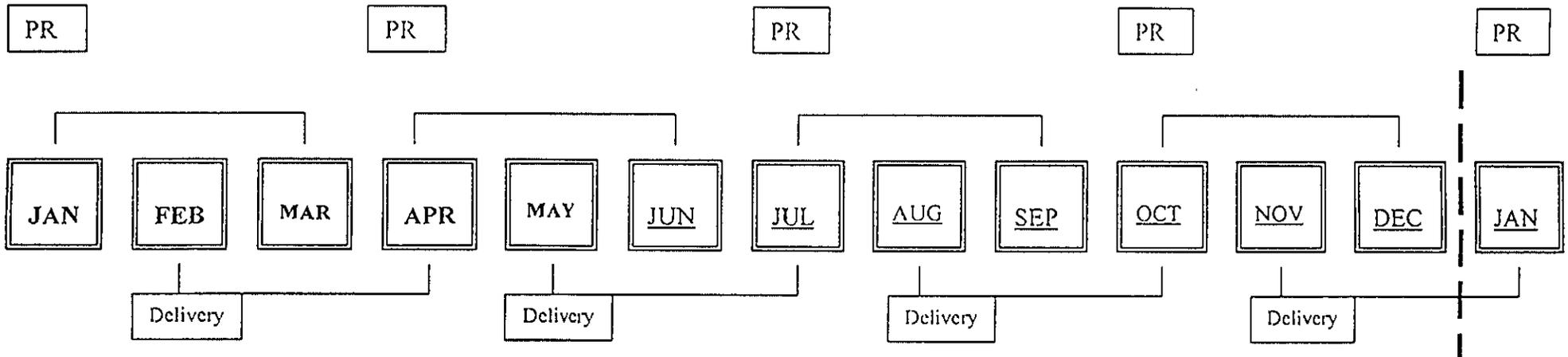
*Expected Date of Delivery:* This is the date the hospital would wish to receive deliveries from suppliers, after taking into account the expected lead-time of 2 weeks set by the procurement system.

*Delivery To:* Name of hospital and address.

*Value of Purchase Order:* Total value of drugs and medical supplies included in the PR in Pesos, based on product unit prices supplied by GSO. See Appendix No.10 for list.

*Funded by:* The name of the organization funding procurement. Usually this would be GSO.

INTERVAL BETWEEN QUARTERLY PURCHASE REQUESTS AND QUARTERLY DELIVERIES



Notice that the interval between purchase requests is three months and the interval between deliveries is also three months. These two intervals are one month apart, which is the lead-time that takes to process the purchase request and for the supplier to deliver.

9/15





**APPENDIX 4: PURCHASE REQUEST FOR EMERGENCY ORDERS**

**PURCHASE REQUEST FOR EMERGENCY ORDERS**

Purchase Request No.: \_\_\_\_\_ Date: \_\_\_\_\_  
 TO: General Services Office, Lingayen, Pangasinan Province  
 FROM: Community/Medicare/District Hospital at \_\_\_\_\_ Customer Code \_\_\_\_\_  
 Procurement Period: \_\_\_\_\_ Expected Date of Delivery: \_\_\_\_\_ Deliver to: \_\_\_\_\_  
 Value of Order: P \_\_\_\_\_ Funded by: \_\_\_\_\_

I hereby certify that the supplies listed in attached order form, are necessary for maintaining stocks of essential drugs, and for official use at the above-mentioned health facility.

Purchase Request Prepared by: \_\_\_\_\_ Requisitioned by: \_\_\_\_\_  
 Pharmacist / Supply Officer \_\_\_\_\_ Hospital Chief \_\_\_\_\_  
 Date \_\_\_\_\_ Date \_\_\_\_\_  
 Approved: \_\_\_\_\_ Gov. Victor E. Agbayani \_\_\_\_\_  
 Date \_\_\_\_\_

**CERTIFICATION**

Appropriations Available: \_\_\_\_\_ Estimated Expenditure Obligated: \_\_\_\_\_ Funds Available: \_\_\_\_\_  
 Provincial Budget Officer \_\_\_\_\_ Provincial Accountant \_\_\_\_\_ Provincial Treasurer \_\_\_\_\_

From Whom Purchased	Order		Quantity	Cost	Unit
	Number	Date			



## Appendix

### List of drugs with potential bioavailability problems in conventional oral forms.

Aminophylline  
Ampicillin  
Carbamazepine  
Chloramphenicol  
Chloroquine  
Chlorpromazine  
Digitoxin  
Dihydroergotamine  
Ergotamine  
Erythromycin  
Estrogens, conjugated or esterified  
Furosemide  
Glibenclamide  
Glyceryl trinitrate  
Griseofulvin  
Hydrochlorothiazide

Iron sulfate  
Isosorbide nitrate  
Levodopa  
Methotrexate  
Methyldopa  
Nitrofurantoin  
Phenytoin  
Prednisolone  
Prednisone  
Quinidine  
Rifampicin  
Spironolactone  
Theophylline  
L-thyroxine  
Warfarin

Source: Managing Drug Supply, MSH 1997

PROVINCE OF PANGASINAN POOLED PROCUREMENT  
TENDER DOCUMENT  
PP/DRUGS/2000

A. INTRODUCTION

1. The General Services Office of the Province of Pangasinan (herein after called the BUYER) is hereby inviting sealed open bids for the supply of Drugs and Medical Supplies (herein after called Drugs) on behalf of 14 District, Medicare and Community Hospitals located within the province.
2. Bids are solicited from suppliers prequalified by the BUYER in respect of Tender Number PP/DRUGS/2000 for Drugs required by hospitals during financial year 2000. The General Services Office (GSO) is acting as the BUYER on behalf of hospitals participating in the pooled procurement of drugs.
3. Suppliers' quotations should remain valid for a period of one year (from January 01, 2000 to December 31, 2000), and delivery of supplies should be made directly to hospitals.
4. All hospitals are expected to place Purchase Requests with the GSO at the beginning of each quarter. Accordingly, the GSO shall raise Purchase Orders with successful suppliers for the provision of necessary Drugs every quarter.
5. The GSO may place additional orders in case of emergency situations.
6. Following are key Tender Documents used by GSO in procuring drugs and medical supplies.
  - Introduction to prospective bidders. (Section A.)
  - Explanation of terms used in contract & tender documents. (Section B.)
  - General Terms of Procurement (Section C.)
  - Instructions to TENDERERS (Section D.)
  - Letter of Compliance (Section E.)
  - BUYER's letter to supplier for award of supply contract. (Section F)
  - List of products to be purchased I Bill of Quantities (Annexure No.1)
  - Supplier's Bid Form (Annexure No.2)
  - Use of Bid Bond. Use of Performance Bond.

7. The Bill of Quantities included in Annexure 1 is based on estimated annual procurement plans submitted by individual hospitals on a quarterly basis. Hence, orders placed by the GSO will normally tend to be in line with quarterly drug requirements included in the annual procurement plans although quantities may increase or decrease by 20%.
8. Once the drugs delivered to hospitals, based on stock in hand, have been found to be acceptable in terms of quantity and conditions mentioned in the general terms and conditions of the tender, GSO would make payment to suppliers on a monthly basis.

## B. DEFINITIONS OF WORDS AND TITLES

### 1. BUYER

The BUYER is the Province of Pangasinan, represented by the Honorable Governor Victor E. Agbayani.

### 2. Participating Hospitals

Following is a list of 14 hospitals that would be using drugs and medical supplies procured under this tender. Successful suppliers are expected to deliver drugs directly to these hospitals.

- |   |  |
|---|--|
| 1. San Carlos District Hospital         | - Brgy. Bolingit, San Carlos City      |
| 2. Urdaneta District Hospital           | - Brgy. Paurido, Urdaneta City         |
| 3. Mangatarem District Hospital         | - Brgy. Casilagan, Mangatarem          |
| 4. Eastern Pangasinan District Hospital | - Brgy. New Magallanes, Tayug          |
| 5. Western Pangasinan District Hospital | - Brgy. Lucap, Alaminos                |
| 6. Bayambang District Hospital          | - Brgy. Bical Norte, Bayambang         |
| 7. Lingayen Community Hospital          | - BLISS 5, Libsong East, Lingayen      |
| 8. Manaoag Community Hospital           | - Brgy. Baritaw, Manaoag               |
| 9. Mapandan Community Hospital          | - Brgy. Poblacion, Mapandan            |
| 10. Pozorrubio Community Hospital       | - Brgy. Talugtug, Pozorrubio           |
| 11. Dasol Community Hospital            | - Brgy. Bobonot, Dasol                 |
| 12. Bolinao Medicare Hospital           | - Brgy. Sampaloc, Bolinao              |
| 13. Asingan Medicare Hospital           | - Soloria St., Poblacion East, Asingan |
| 14. Umingan Medicare Hospital           | - Burgos St., Umingan                  |

### 3. Primary Supplier

Primary supplier is the supplier who has been selected by the Committee on Awards to supply a particular product to all participating hospitals, during the life of the contract, as long as he is able to perform satisfactorily.

#### 4. Secondary Supplier

A secondary supplier is a supplier who submits a tender to GSO, and who is eligible to supply a product to the GSO if the Primary Supplier mentioned above is unable to perform satisfactorily.

#### 5. Supplier I Contractor

Supplier or Contractor is a manufacturer of pharmaceuticals and medical supplies or a distributor/procurement agency of one or more manufacturers prequalified by the GSO.

#### 6. Fixed Price Purchase Order

Fixed price purchase order arises from the acceptance by the Committee On Awards of the office of the BUYER, of the offer made in respect of items offered in the tender by the supplier. Terms and conditions of the purchase order are set forth in the Tender Document. The validity of the fixed price is from the time of the award to December 31, 2000.

### C. GENERAL TERMS AND CONDITIONS OF PROCUREMENT

#### 1. Eligibility of Bidders

- 1.1 This invitation to bid is open to all suppliers of drugs and medical supplies, who are duly licensed and prequalified by the GSO.
- 1.2 In the case of a TENDERER offering to supply products under the contract that the TENDERER did not manufacture or otherwise produce, the TENDERER must show proof that he has been duly authorized by the manufacturer or wholesale distributor to supply the goods in the BUYER's country. Correspondence to this effect must be included for each manufacturer, stating that there are no other sub-dealers offering a lower price.

#### 2. Agreement to Sell and Validity of Price Offered

- 2.1 Agreement to sell (Tender by Supplier) is made by the TENDERER at the accepted price for products described in the "Quotation Form", throughout the year 2000 to be delivered to the hospitals participating in the pooled procurement process.

### 3. Cost of Tender

3.1 The TENDERER should bear all costs associated with the preparation and submission of its tender, and GSO is not responsible or liable for these costs regardless of the outcome of the tendering process.

### 4. Resolution of Disputes During the Period of Award (until December 31, 2000)

4.1 The BUYER and the supplier shall make every effort to resolve amicably by direct informal negotiation any disagreement or dispute arising between them or in connection with the contract during the validity of the award.

4.2 In case any dispute or difference shall arise between GSO and the supplier either during the course or after completion or abandonment of the contract as to the construction of the contract or as to any matter or thing arising thereunder or in connection therein, either party may forthwith give to the other notice in writing of such dispute or difference, and the same shall be referred to arbitration in accordance with the laws of the Philippines.

4.3 Any notice required to be given to the supplier shall be deemed to be sufficiently given if the same is delivered by prepaid post to the supplier's registered office, or last known place of business.

4.4 Notice required to be given to the GSO shall be deemed to have sufficiently given if the same is delivered to the General Services Officer, GSO, Provincial Office, Pangasinan.

### 5. Amendments to the Tender Document

5.1 At any time prior to the deadline for the submission of tenders, the BUYER may, for any reason, whether at its own initiative or in response to a clarification requested by a TENDERER, modify the Tender Documents.

5.2 The amendment would be communicated in writing to all TENDERERS that have received the Tender Documents and will be binding on them.

### 6. Late Tenders

6.1 Any tender received late by the BUYER after the deadline for the submission of tenders prescribed by the BUYER (10:00 am. of December 27, 1999), pursuant to the above, shall be rejected and returned unopened to the TENDERER.

## 7. Modification and Withdrawal of Tenders

- 7.1 The TENDERER may modify or withdraw its tender after its submission, provided that a written notice of the modification or withdrawal is received by the BUYER prior to the deadline prescribed for the submission of tenders.
- 7.2 No tender may be modified subsequent to the deadline for submission.

## 8. Clarification of Tenders

- 8.1 Suppliers should make use of the pre-bid conference for the clarification of any queries relating to the tender. No change or negotiation over these terms will be allowed during the pre-bid conference.
- 8.2 A prospective Bidder requiring any clarification of the Bidding Documents may notify the GSO in writing, or by Fax, at the GSO's mailing address. The GSO will respond in writing to any request for clarification of the Bidding Documents that it receives not later than 10 working days prior to the deadline for the submission of bids prescribed by GSO. Written copies of GSO's response (including an explanation of the query but without identifying its source) will be sent to all prospective Bidders who have received the Bidding Documents.

## 9. Preliminary Examination

- 9.1 The BUYER will examine the bids to determine whether they are complete, whether any computational errors have been made, whether required sureties have been furnished, whether the documents have been properly signed, and whether the bids are generally in order.
- 9.2 Arithmetical errors will be rectified on the following basis. If there is a discrepancy between the unit price and the total price that is obtained by multiplying the unit price and quantity, the unit price shall prevail and the total price shall be corrected. If the TENDERER does not accept the correction of errors, its bid shall be rejected. If there is a discrepancy between words and figures, the amount in words will prevail.

## 10. Evaluation and Comparison of Bids

- 10.1 To assist in the examination, evaluation, and comparison of tenders, the BUYER may at his discretion, ask the TENDERER for a clarification of its tender and no change in the price or substance of the bid shall be sought, offered or permitted.

- 10.2 Bids that do not conform to specifications and descriptions called for in the call for bid will be declared non-complying bids.
- 10.3 The offers with the lowest evaluated cost but not necessarily the lowest submitted would be judged the most advantageous. The General Services Officer shall assist the Committee on Awards in coming up with the final list of recommended lowest, second and third lowest evaluated bidders.
- 10.4 The two evaluated bidders shall be published with the following conditions.
  - 10.4.1 Lowest evaluated bidder shall be declared the winning bidder.
  - 10.4.2 However, in case the Primary supplier cannot serve or deliver the product within the stipulated time, the second winning bidder shall automatically be given priority to supply the products based on his bided quotation. This holds true for the third lowest winner.

11. Contacting the BUYER

- 11.1 No TENDERER shall contact the BUYER on any matter relating to its tender, from the time of the bid opening to the time contracts are awarded. Any effort by a TENDERER to influence the BUYER in its tender evaluation, tender comparison or contract award decision may result in the rejection of the TENDERER's bid.

12. BUYER's Right to Accept Any Tender and Reject Any or all Tenders

- 12.1 The BUYER reserves the right to accept or reject any tender, and to annul the tendering process and reject all tenders at any time prior to the award of contracts without incurring any liability to the affected TENDERER or TENDERERS or any obligation to inform the affected TENDERER or TENDERERS of the grounds for the BUYER's action.

13. Assignment

- 13.1 The TENDERER shall not give, bargain, sell assign sublet, or otherwise dispose of the contract, or any parts thereof, for the benefit or advantage of the TENDERER without the previous consent of the BUYER.

#### 14. Issuance Of Purchase Order

- 14.1 The GSO shall issue purchase Orders to the primary supplier who has accepted the Notice of Award for winning the items as indicated in the list of Tender Awards.
- 14.2 Purchase Orders shall be issued by the GSO to the winning supplier every quarter (1<sup>st</sup> weeks of February, May, July and October, 2000. Winning suppliers are responsible for picking up the Purchase Orders from the GSO.
- 14.3 Purchase Orders not picked up after the 2<sup>nd</sup> week of the quarter will be cancelled and given to an alternate supplier (Secondary Supplier).

#### 15. Deliveries and Penalties

- 15.1 Supplier must be able to deliver the products called for within 10 days of picking up the Purchase Order.
- 15.2 In the event of failure by the supplier to deliver the entire quantity of products ordered within the lead time specified in the Tender Document other than delays due to circumstances provided for in sub clause (a), the BUYER shall have the right to cancel any or all such contracted products from the contract without compensation and obtain them from other sources. All increased costs thereby incurred shall be deducted from any moneys due or to become due to the contractor under the contract, forfeiture of the performance bond, and would be subjected to penalties provided under existing accounting and auditing rules and regulations.
  - (a) No action will be taken against the supplier if they fail to deliver products owing to wars, acts of god, strikes, lock outs, fires, storms, tempests, government action, riots, civil commotion, or other circumstances beyond their control.
- 15.3 Suppliers must only deliver products registered under their names, and not those registered under other suppliers, except those with Certificate of Exclusive Distributorship.
- 15.4 Delivery must be made on a quarterly basis directly to hospitals. Supplies shall be accepted by the Pharmacist or the Supply Officer, and checked by members of the Inspection Committee attached to each hospital. The Inspection Committee will raise a Receiving and Inspection Report that GSO will attach to the payment voucher.

- 15.5 All rejected deliveries based upon a technical finding by BFAD will be subject to disposition as put forth by existing BFAD policies, terms and conditions.
- 15.6 All rejected deliveries based on physical condition evaluation by authorized representatives receiving supplies at hospitals shall be subject for replacement within one week by the supplier at their own expense.
- 15.7 More than one rejection of deliveries of any product shall result in the cancellation of the Purchase Order, confiscation of the Performance Bond, and the supplier shall be banned from participation in future tenders conducted by the BUYER.

## 16. Packaging, Marking and Labeling

- 16.1 The supplier shall provide such packing of the drugs as is required to prevent their damage or deterioration during transit to their final destination. The packing shall be sufficient to withstand, without limitation, rough handling during transit and exposure to extreme temperatures, and precipitation during transit and open storage.
- 16.2 Each package must be sealed top and bottom side and must be double to triple strapped with plastic bands or marked tape. Packages found defective or improperly taped or sealed will be rejected for replacement. Said delivery will not be inspected and accepted unless these conditions are complied with.

\*\*The Packing Markings and Documentation within and outside the packages shall comply strictly with special requirements mentioned below

### 16.3 Packing List

Each case/package shall contain 4 copies of packing list. The packing list shall contain the following minimum information relating to drugs.

- a.) Name and address of supplier
- b.) Generic name of the drugs
- c.) Brand name of the drugs (Optional)
- d.) Date of Manufacture of drugs
- e.) Expiry date of drugs
- f.) Quantity of drugs inside the case/package
- g.) Unit price and total price of drugs in the case/package

#### 16.4 Package Markings

Each case/package shall have the following information printed in **BOLD LETTERS** on the outside, and the size of the letters shall not be less than 2 cm in height

- a.) Destination: Names of the hospital.
- b.) Name of Consignee: Governor, Province of Pangasinan. c.) Tender Number:
- d.) Name of Supplier:
- e.) Generic name of the drug:
- f.) Date of manufacture:
- g.) Expiry date:
- h.) Quantity of drugs inside the case/package:
- i.) Lot and batch number
- j.) Special handling instruction as appropriate:
- k.) Case/package identification number:
- l.) Gross and net weight:
- m.) Other instructions to shippers and warehouse personnel (as appropriate)

#### 16.5 Drug Containers and Labeling

The container for drugs should not interact physically or chemically with the drugs placed in it so as to alter the strength, quality or purity of the drugs beyond the stipulated requirements. The container for the drugs should be such as to protect the contents from extraneous solids and from loss of the articles under normal conditions of handling, shipment, storage, and distribution. Labeling in each container of drugs must include the following minimum information in English:

- a.) Generic name of drugs prominently displayed
- b.) Brand name of the drugs (optional in small print)
- c.) Strength
- d.) Date of manufacture, date/month/year
- e.) Expiry date, date/month/year:
- f.) Batch number, lot number, or control number:
- g.) "Government Property" printed on the labels.
- h.) Registration number with BFAD

- 16.6 Under no circumstances shall the Retail Price of Drugs be indicated in any part of the container of the drug. The letters in the labels must be large enough (not less than font size 10), for easy identification of drugs and medical consumables, and its expiry date.

17. Notification of Transport and Documents

17.1 Letter or Fax shall make notice of transport to the following addresses.

- a.) GSO, Pangasinan Provincial Office, Lingayen. Fax # 075 542 6013
- b.) To concerned hospital.

17.2 Notice of transport shall contain following information:

- a.) Tender Number
- b.) Total number of packages shipped
- c.) Purchase Order number
- d.) Expected time and date of arrival of drugs at the designated hospital.

17.3 Upon delivery, the supplier shall provide the following directly to the GSO.

- a.) Four copies of supplier invoice showing drug description, quantity, unit price, total amount, any taxes or duties levied, lot number, and expiry date.
- b.) Four copies of packing list, identifying the contents of each package.
- c.) Two copies of the manufacturer's guarantee certificate
- d.) Two copies of the manufacturers test certificates.
- e.) Inspection certificate issued by the nominated inspection agent.
- f.) Certification of origin of drugs.
- g.) Receipt certifying that the drugs have been received at the designated hospital.
- h.) Two copies of the certificate of approval from BFAD.

18. Bid Prices and Quantities

18.1 The bidder shall indicate on the "Bid Form" the unit prices and total prices of each product it proposes to supply in Philippine Pesos.

18.2 Price quoted by suppliers for a product shall be ONE AND THE SAME FOR ALL HOSPITALS participating in the pooled procurement system for drugs, and should be inclusive of delivery up to the level of hospitals, insurance, taxes, duties and all other charges incurred.

18.3 The quantities called for in the Bill of Quantities (Annexure no.1) are only estimates based on requirements of drugs provided by individual hospitals, and expected budgetary release. The actual purchases may vary from the given estimate, and be at least 20% higher or lower, and will depend upon the availability of funds and actual needs of hospitals.

19. Payments

- 19.1 Payments would be made to suppliers who have delivered drugs to hospitals, and whose supplies those authorized for receiving supplies at hospitals have accepted.
- 19.2 The Provincial Treasurer would make payment to suppliers on a monthly basis.

20. Standards and Quality Control

- 20.1 All products must:
  - (1.) meet the requirements of manufacturing legislation and regulation in the country of origin and be approved for use or eligible for approval in that country.
  - (2.) be of BP, or USP standard.
  - (3.) contain a lot or batch number, and an expiry date must be clearly indicated on the label of every dispensing unit.
  - (4.) meet whatever other specifications indicated in the tender document as a whole.
  - (5.) be certified by the competent authority in the country of manufacture according to the WHO "Certification scheme on the quality of pharmaceutical products moving international commerce
  - (6.) have country of origin stated in the bid form.
- 20.2 Suppliers must meet the requirements for Good Manufacturing Practice (GMP) and shall provide GSO within one month of request, Certificates of Analysis concerning relevant microbiological and pharmacological tests.
- 20.3 Supplier will provide evidence of bioequivalence of generic products when available.
- 20.4 GSO may request a statement of the master formulation for the confidential information of the Committee on Awards.
- 20.5 GSO shall be at liberty to call for reference samples of any product to be supplied under the tender. Supplier shall supply such samples within 2 weeks of receipt of the GSO's request.
- 20.6 In the event that the GSO is of the opinion that a product supplied under this tender is not in accordance with the above terms, the GSO reserves the right to submit such an item for expert examination and/or test. All costs incurred shall be borne by the supplier, unless such examination and/or tests show that the questioned product is in accordance with the contract.

21. Product Condition and Shelf Life

- 21.1 Drugs and medicines to be delivered must be fresh from commercial stock. Expiry must be 2 years or less from the date of manufacture and at least one and a half years or more from the date of delivery.
- 21.2 For other items, these must be brand new and in good working condition. Said items shall be tested upon delivery. A document must accompany the delivery item showing the serial number and condition of the equipment.

22. Product Literature

- 22.1 Descriptive literature must be submitted by a supplier with his offer. It is the responsibility of the TENDERER to ensure that his tendered products are clearly and factually described to the GSO for purpose of assisting the Committee on Awards during the adjudication process.
- 22.2 Every bottle, pack, foil strip, must carry a package insert giving detailed explanation of the drug, including a description, action, indication, contra indications, warnings, precautions, caution, adverse reaction, dosage and administration.
- 22.3 Brochures, and manuals (in English) must be provided for all products requiring these.

23. Law Of Procurement

- 23.1 The Procurement shall be considered as a contract made in the Philippines, and subject to the laws of the Philippines.

24. Patent Rights

- 24.1 The contractor shall indemnify the GSO and its participating hospitals against all claims that may arise at any time on account of patent rights.

25. Cold Storage

- 25.1 Items such as Vaccines and Insulin, which require cold storage should be shipped COLD CHAMBER CARGO and labeled appropriately. Both GSO and consignee (hospital) should be notified of the ETA by Telephone I Fax.

26. Bonds

- 26.1 The bids must be accompanied by an original bidder's bond or managers check or cash payable to the office of the Treasurer amounting to Five (5%) percent of the bid value, or Twenty Thousand (P 20,000) Pesos, whichever is lower. A bid not accompanied by required bid bond shall not be opened, announced or recorded in the minutes of the tender proceedings.
- 26.2 All bid bonds would be discharged once tenders have been awarded.
- 26.3 Winning bidders shall be issued a Purchase Order, and shall within five (5) calendar days from receipt thereof, post a performance bond with GSO amounting to Ten percent (10%) of the total amount indicated in the Purchase Order. Any refusal on the part of the winning bidder to accept award or Purchase Order made shall entitle the BUYER to confiscate the bidder's bond without the need for court action.
- 26.4 The Performance Bond would be discharged once the supplier has completed the delivery of all supplies under the contract, according to the satisfaction of the BUYER.

D. INSTRUCTIONS TO TENDERERS

1. Tender Documents could be obtained at the GSO after payment of a non-refundable amount of PhP 500.00.
2. Tenders must be submitted in a sealed envelope marked "Tender For the Supply Of Drugs and Medical Supplies No. PP/DRUGS/2000", to arrive at the Pangasinan Provincial General Services Office, on or before the closing date of tender (indicate time).

Do not return Sections A through D of the tender documents, nor pages of the Quotation Form on which quotations are not recorded.

Offers must be made on the form attached or exact facsimile. Any offer made on pages not following the GSO format shall be disqualified.

3. The completed Bid Form Pages and Letter of Compliance signed and returned by the TENDERER, or any authorized representative, shall constitute a Tender and shall be binding upon the TENDERER.

4. The TENDERER's latest product information material and I or descriptive catalogue, if not previously provided to GSO, must be submitted with the tender.

5. Samples of products must be submitted in the following situations:

- (a.) New suppliers who have not previously supplied the Pangasinan GSO with tendered products.
- (b.) All suppliers shall provide samples against products with a ' ~ Yes' ~ mentioned under the column 'Samples', in the Bill of Quantities (Annexure 1).
- (c.) Samples are required in the following quantities:

Tablets	30 Tablets
Capsules	5 Capsules
Liquids	100 cc
Injectables	Equivalent of 50 ml
Creams/Ointment	100 gms.
Ear/Nose/Eye Preparations	2 Bottles
Medical Supplies	1 Single Unit

6. All TENDERERS will receive the price list of Primary and Secondary suppliers.

7. The Letter of Compliance **MUST** be included with the bid pages.

8. All pages containing quotations should bear the name of the supplier and the signature of an authorized officer.

9. A pre-bidding conference shall be scheduled by the GSO on December 20, 1999 at 9:00 a.m. Briefing Room, Provincial Capitol Building, Lingayen, Pangasinan to clarify the Tender Documents and answer any questions from bidders.

E.

**LETTER OF COMPLIANCE**

Tender No. PPIDRUGSI2000

Period of Contract 1st January 2000 to 31st December 2000

(To be completed and submitted by the tenderer)

We have read and taken full note of the instructions to Tenderers (section D) and General Conditions of Contract (Section C) of tender documents. In accordance with these terms and conditions, we wish to offer those items detailed in the Bid Forms, at the prices and delivery times stated.

We understand that the acceptance of our tender for specific products, will be certified by your signed "Letter of Acceptance" and a detailed list of awarded products. Such acceptance combined with this pre-signed "Letter of Compliance" shall constitute a contract binding upon both parties with the terms and conditions effective from the opening date of the period stated.

We hereby submit the following statements of compliance:

1. The rules, regulations, terms, conditions and instructions in the Tender Document have been read and are agreed to:
2. All prices quoted are in Philippine Pesos.
3. We understand that the GSO is not bound to accept the lowest or any bid received.
4. Any difference in a product offered from the stated specifications is specially noted in the Remarks column of the Bid Form, or where insufficient space, specially cross-referenced in a comparative fashion on attached accompanying sheets. Otherwise, our product is in accordance with the specifications (drug, dosage form, strength, and packaging)
5. Except as otherwise specially noted, at least a 3 month quantity of the contracted product shall be available for shipment to hospitals as of the first day a Purchase Orders are received, and thereafter a continuous supply shall be available during the remainder of the Contract Period.
6. We have included the manufacturer's name and the country of origin of each product tendered on the Bid Forms.
7. Products available under the Contract will be solely from batches approved or eligible for distribution in the country of manufacture.

8. In completing the Bid Forms, we have typewritten only in the spaces below the broken line of each product description on the Bid Forms. (including in the Prices Columns) and the appendices when appropriate.
9. We have quoted on the following Tender pages:  
 against a total of.....products amounting to..... Pesos.  
 (Please omit blank tender pages)

We accept that any false statement made in the Tender Document proved after the award of a contract will have the effect of cancelling any such contract.

NAME (BLOCK CAPITALS): .....

SIGNATURE: .....

DESIGNATION: .....

DATE: .....

DULY AUTHORIZED TO SIGN TENDERS ON BEHALF OF:

COMPANY SEAL / STAMP

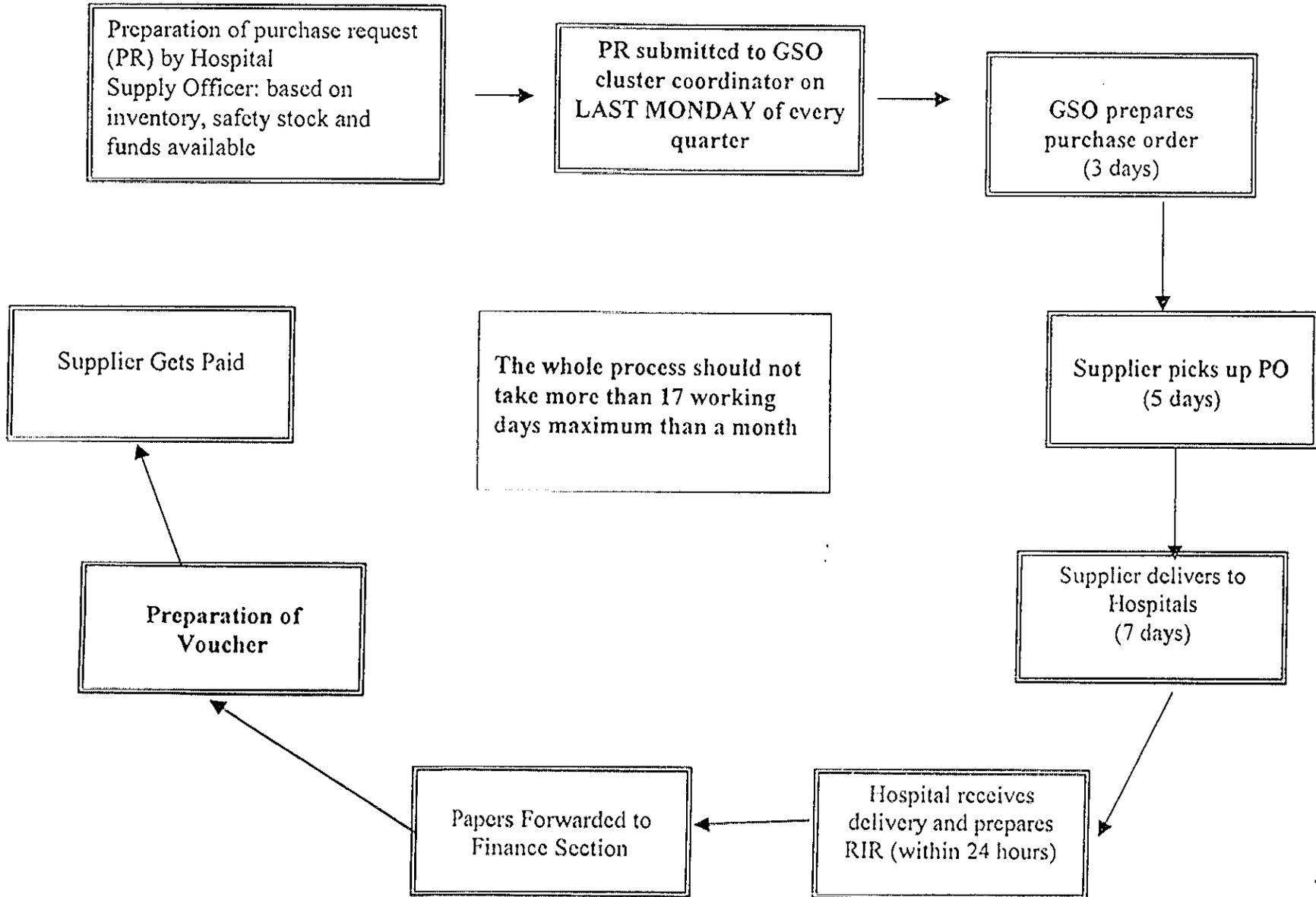
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: Tenderer's Name :  
 : Full Address, Phone, and Fax Nos. :  
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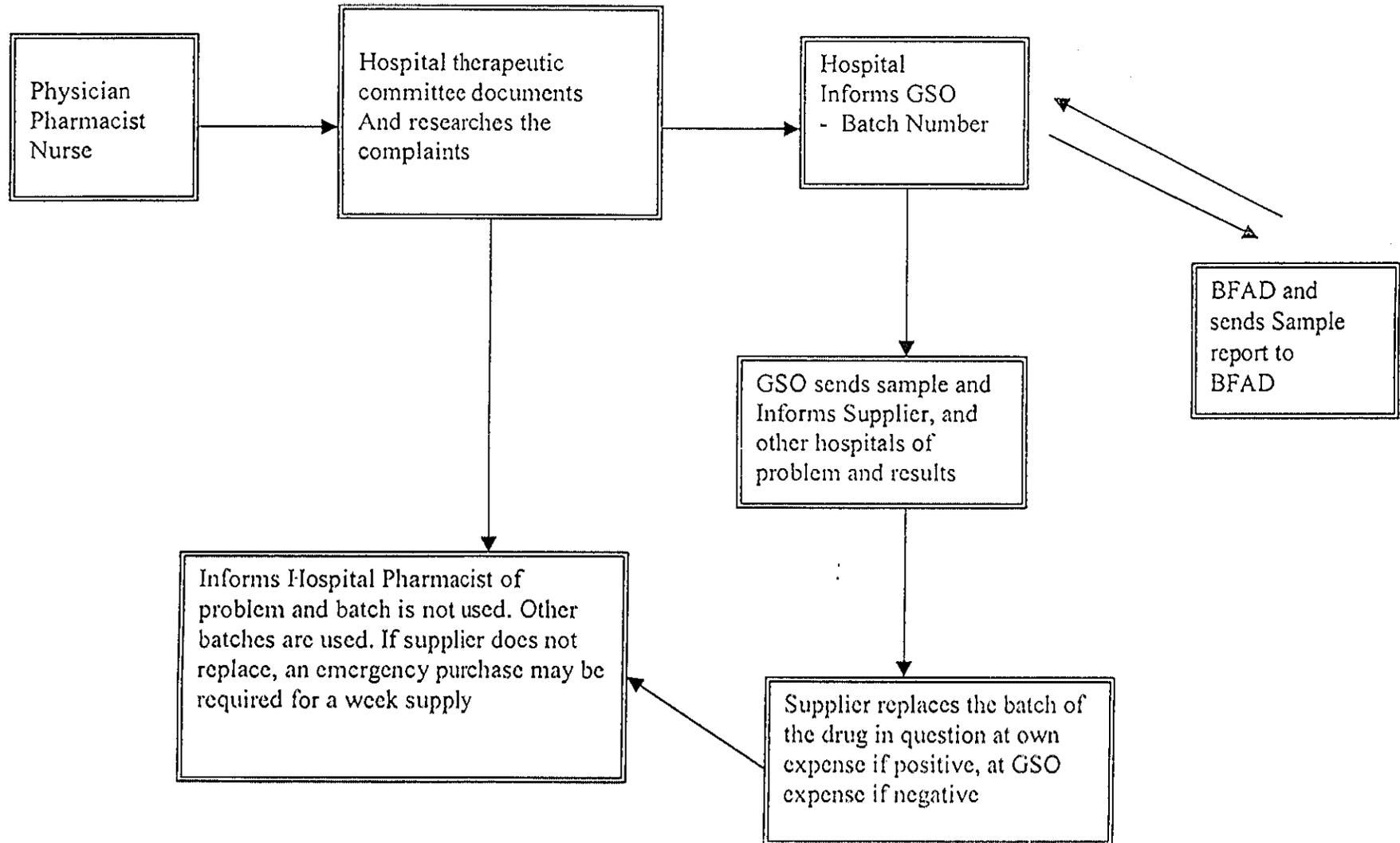




ACTION STEPS FOR PROCESSING PURCHASE REQUESTS



## ACTION STEPS FOR SUSPECTED QUALITY PROBLEMS



APPENDIX NO. 12

PROVINCIAL SUPPLIES REPORT  
FOR THE PROVINCE OF PANGASINAN

NUMBER OF REPORTING HOSPITALS:

TOTAL NO. OF BEDS:

REPORT PERIOD:

NO.	DESCRIPTION	VALUE	REMARKS
1	VALUE OF PURCHASE REQUESTS ISSUED		
2	VALUE OF EMERGENCY PURCHASE REQUESTS ISSUED		
3	VALUE OF LOCAL PURCHASES		
4	VALUE OF SUPPLIES FROM GSO		
5	VALUE OF DONATIONS RECEIVED		
6	VALUE OF RMS SUPPLIES		
7	VALUE OF TRUST FUND DEPOSITS		
8	NO. OF PRODUCTS REJECTED		
9	NO. OF PATIENTS ADMITTED		
10	NO. OF OUTPATIENTS TREATED		

Prepared By:

Date:

Checked By:

Date:

## ACRONYMS

1. ABC - ABC Value Analysis
2. AMC - Average Monthly Consumption
3. BFAD - Bureau of Food and Drugs
4. BCF - Bid Comparison Form
5. CMS - Central Medical Store
6. CSR - Central Supply Room
7. DOH - Department of Health
8. GSO - General Services Office
9. HTC - Hospital Therapeutic Committee
10. MSH - Management Sciences for Health
11. MSL - Maximum Stock Level
12. PBAL - Pre-qualification, Bids and Awards Committee
13. PO - Purchase Order
14. QA - Quality Assurance
15. RIR - Receiving and Inspection Report
16. RIV - Requisition Issue Voucher
17. RMS - Regional Medical Stores
18. SIV - Stores Issue Voucher
19. VEN - Vital, Essential & Non Essential Classification of Drugs
20. 4 P - Pangasinan Pooled Procurement Program



# Technical Brief **No. 8 - June 1995**

## *Introduction*

Devolution of hospitals resulted in the centralization of the procurement process to the provincial governments. The circuitous procurement process - which needed numerous signatures and initials - has become a major problem now confronting devolved hospitals. Add to this the fact that a big number of the devolved hospitals are located far from provincial capitals making it difficult for them to communicate, coordinate and follow-up their purchase requests. These, and other reasons, oftentimes led to shortages in drugs and medical supplies.

To address this problem, the province of Negros Occidental, a first class province with eleven (11) devolved hospitals, was chosen as a demonstration project for the implementation of a simplified drug procurement system. The project was carried out through a technical assistance grant from the USAID-funded Health Finance Development Project (HFDP) of the Department of Health (DOH).

The development of the proposed system was undertaken by the Economic Development Foundation with full assistance from the Negros Occidental provincial government and the different department heads, chiefs of hospital as well as the employees directly involved in procurement processing. The proposed system was implemented in one quarterly cycle to test

its feasibility. The system was also presented in a workshop attended by selected devolved hospital administrators as well as the DOH and COA regional staff.

This Technical Brief on the *Drug Procurement System Demonstration Project* contains the following:

I. The Hospital Drug Procurement System discusses both the pre- and post-devolution system;

## **Drug Procurement System Demonstration Project** *Province of Negros Occidental*

II. Possible Causes of Delay in Procurement Processing traces the causes of delay in procurement processing based on some key findings of a survey conducted to evaluate the effects of devolution on devolved hospitals;

III. The New Drug Procurement System of Negros Occidental presents the model developed for the province and the changes currently being implemented;

IV. Making the New Procurement System Sustainable identifies some of the refinements that are still needed to make the new system effective.



"Technical Brief" reports on the findings of research studies and their interpretations of implications for health policy. They also highlight information regarding important aspects of health policy based on conferences, research, policy speeches, demonstration and pilot project results, consultations, and public discussions.

"Technical Brief" draws attention to recent factual findings that have significant policy implications. It is meant to disseminate factual information and expressions of opinion bearing on policy and policy related issues to provide important information and to encourage the exchange of ideas, interpretation of facts and expressions of opinion among those interested in development and formulation of health policy in the Philippines.

This publication is issued under the general stewardship of the Health Finance Development Project (HFDP), Office of the Undersecretary, Chief of Staff, Department of Health under a Cooperative Agreement (contract no. 492-0446-C-00-2114-00) with US Agency for International Development. To assure uniform quality and appropriateness of content, the HFDP is assisted by the Editorial Committee of the HPDP, the HFDP Communication Committee, and technical editors as appropriate. The views, expressions, and opinions contained in this publication are those of the authors' and are not necessarily endorsed by the USAID and the Department of Health.

Glorta Gilda V. Custodio  
Issue Editor

Inquiries may be sent to:  
Health Policy Development Staff (HPDS)  
Department of Health  
San Lazaro Compound  
Manila, Philippines  
TN: (632) 711-6744  
Fax No: (632) 711-6812

Health Finance Development Project  
(HFDP)  
20/F Pacific Bank Bldg.  
Ayala Avenue, Makati  
Philippines  
TN: (632) 817-4433  
(632) 817-6297  
Fax No: (632) 810-1761

## I. The Hospital Drug Procurement System

● *Pre-devolution Hospital Procurement System* - Prior to devolution, provincial, district and municipal hospitals' procurement process under DOH was less complicated using the sub-allotment system. Hospitals then could process and approve purchases with three to four signatures of the Chief of Hospital, the Administrative Officer, the Accountant and the Supply Officer.

Prices being followed then by the hospitals for their purchases were based on quotations submitted by suppliers during the regional level bidding. In addition, some drugs and medicines were distributed by the DOH regional offices and were procured by the DOH Central Office through bulk purchase.

● *Post-devolution Hospital Procurement System* - While decentralization aims for a more effective health delivery system, the provisions of the Code centralized procurement under the newly created LGU department called the General Services Office (GSO). With devolved hospitals located in various places of the province, hospital personnel now have to rely on the GSO for their drugs and medical supplies procurement. Hospitals, as end-users, will only have to prepare their respective purchase re-

quests and wait until deliveries are made by winning suppliers to them, or through the GSO.

The first year of implementing devolution found majority of hospitals with little drugs and medical supplies due to the centralized procurement system. All provinces were in the same situation as they all follow basically the same financial management and accounting process prescribed by law. Various palliative measures were resorted to like giving cash advances to hospitals. But this approach did not last long. COA auditors questioned the use of the cash advance method as it is claimed to be contrary to law. Their position is that cash advances should be limited to emergency situations. Drugs and medicines, based on their definition, are regular, recurring items that must be bought under the normal procurement process. Other auditors were understanding enough to allow the cash advance method, but some Chiefs of Hospital later became discouraged as they found themselves burdened by questioned or disallowed purchases when their cash advance liquidations were audited.

Chiefs of Hospital also found themselves spending valuable man-hours following up purchase requests at the Provincial Capitol. In certain cases, poor communication system did not

### Negros Drug Procurement System 3

even allow them to be informed that their requests were not being processed due to certain d e f i c i e n c i e s .

Hospital personnel were also clamoring for the sub-allotment system. In a paper written by COA Assistant Commissioner Nazario Anis, he mentioned that one stumbling block in allowing sub-allotment is the provision of Section 344 of the Local Government Code which partly states "Except in cases of disbursements involving regular recurring administrative expenses, ...approval of the disbursement voucher by the local chief executive himself shall be required whenever local funds are disbursed." Pursuant to this provision and other interpretation adopted by COA and the Department of Interior and Local Governments (DILG), the personal approval of the local chief executive is required, thereby preventing the use of sub-allotment scheme which practically delegates approval to chiefs of hospital.

The procurement process being followed by the Province of Negros Occidental prior to this pilot project was no different from other provinces. Initials and signatures on documents starting from purchase requests to payment vouchers and checks would be more than 40. It will be observed that in every office, the typical number of signatures and initials would at least be four. If we consider the number of departments/units the documents go through the procurement cycle, it is not surprising to have a total of more than 40 signatures and initials.

#### II. Possible Causes of Delay in Procurement Processing

The following situations if not properly addressed could lead to delays in procurement processing. Some of these were actually observed while others were shared by key staff during deliberations to identify potential problem areas in implementing the proposed system. The

survey conducted by the Economic Development Foundation to evaluate the effects of implementing devolution on devolved hospitals revealed the same observations which include the following:

##### *1. Annual Procurement Plan Haphazardly Prepared*

- The annual procurement plan (APP) of each hospital must be carefully prepared. Not only the historical procurement experience of hospitals must be considered, but planned activities for the coming year as well. While amendatory procurement plan is allowed under the LGC, it will still have to be approved by the Local Chief Executive (LCE) thereby prolonging processing time.

##### *2. Annual Procurement Plan List Poorly Sequenced and Clustered*

- All purchase requests (PRs) will have to be checked against annual procurement program to ensure that they were included therein. As there are numerous items listed in the PRs to be checked against the APP, the process is time consuming since there is no standard sequence and clustering used in both PRs and APP.

##### *3. Purchase Request List Not in Accordance with Annual Procurement Program*

- Purchase requests that include items not covered by the annual procurement program are returned to requesting units. Several days or even weeks are wasted if requests are returned due to inclusion of items not covered by the annual procurement plan of the hospital. This situation is a common cause of delay in the procurement processing.

##### *4. APP Pricing Not Based on Recent Prices (No Escalation Provided)*

- Annual Procurement Plan for a particular year is prepared one or two quarters prior to the start of the year during budget preparation time. Estimated prices will have to be indicated in the procurement plan which normally is a year old if based on most

#### Negros Drug Procurement System 4

recent purchases. Reasonable allowance for increases should be considered. If any price increase occurred during the year, it will result in lesser volume supplies that may be procured for the year out of the approved budget.

*5. PR Comparison with APP not Thoroughly Checked by End-Users* - It should be the responsibility of the person preparing the PR to see to it that it conforms with the APP to minimize incidents of returning non-responsive PRs which include items not found in the APP. The person responsible at the hospital level is the Supply Officer. In a smaller hospital, it is the Administrative Officer, concurrently functioning as Supply Officer.

*6. Budget Office Figures (Appropriation vs. ROA) Not Reconciled with Accounting Figures* - Every time a PR is processed by the Budget Office, the balance of available appropriation is correspondingly reduced. The prices of items requested are normally based on estimates. It is only after the bidding process that the actual prices are determined. There will be variances between total prices recorded by the Budget Office which were based on estimates and the actual prices of purchased items recorded by Accounting. If the variances were not adjusted in the Budget Office's appropriation ledger, there would be unused appropriation not made available to a certain department or hospital arising from this situation.

*7. No System of Delegation in Processing and Approval* - It was observed that if one of the persons in the processing sequence is not available, the process stops. To minimize unnecessary delays arising out of this situation, it is imperative that a system of delegation be in place.

*8. Too Many Document Monitoring Controls* -

Every time a document is received or released by one office, it is recorded in the records control book. The system evolved out of the experience of papers getting lost while processing is in progress. It was observed that there are cases where within one department, each section maintains a record book that further adds to the number of persons/stations where the papers go through.

*9. Limited Distribution of Invitation to Bidders (ITB)* - The call for bids must be given the widest publicity possible. The practice of limiting bidders to a minimum allowed by law might also delay procurement as it could result in failure of bidding. While failure of public bidding for two consecutive times would allow negotiated purchase, chances of getting better prices under a negotiated purchase is slim considering the absence of competition.

*10. No Updated List of Accredited Suppliers* - Maintaining a list of accredited suppliers will shorten procurement processing as invitations can directly be sent to them instead of merely relying on those who will respond to call for bids. This will minimize chances of failure of bidding.

*11. Accepting Photocopied Supplier Documentation* - Whenever photocopies of accreditation documents are submitted, reference should be made to the original documents. Better still, checking with the issuing parties will eliminate the possibility of getting deceived by unscrupulous bidders.

*12. Postponing the Signing of Abstracts of Bids* - Since it takes some time to complete the abstract of bids, some of the common practices of members of the Awards Committee are : (1) to designate their representatives during the opening of bids, have them initial the abstracts and for the members of the

## Negros Drug Procurement System 5

Awards Committee to sign these abstracts later; and (2) they will personally witness the opening of bids but for various reasons will sign the abstracts later. Under both situations, the possibility of each member of the Awards Committee raising individual questions on the abstracts could cause delay in further processing this document.

*13. Poor Documentation of Minutes of Awards Committee Meeting* - If there were agreements or resolutions made by the Awards Committee before the presence of contending bidders and no accurate documentation of the same was kept, questions could later on be raised either by any member of the Awards Committee or any bidder. To avoid incidents like these, accurate minutes must be kept, duly certified by the Committee Secretary.

*14. Accepting Partial Deliveries or Postponing Deliveries* - While partial or postponed deliveries are allowed by law under exceptional cases like force majeure, tolerating partial or postponed deliveries could lead to abuses. Winning bidders would not officially receive their copies of the Purchase Orders because they still do not have stocks on hand. It would later appear that they were sourcing available stocks to fill in their winning bids.

*15. Accepting Delivery of Near-expiring Medicines* - Procured items, especially in the case of drugs and medicines, are presumed to be fresh commercial stocks. It is known in the pharmaceutical industry that near expiring medicines and drugs command lower prices. The GSO must ensure that delivered stocks are fresh and must not contain items that have limited expiration period, otherwise, pharmacy units of hospitals will end up with expired stocks.

*16. Non-preparation of Monthly Inventory*

*Reports* - If no monthly inventory reports are prepared, control over stocks is weak. This may lead to undetected malpractice by certain parties that have control over stocks. Monthly inventory reports, together with the regular monthly hospital operation statistical reports, will easily allow analysis of proper utilization and application of inventory items.

*17. No Periodic Physical Inventory Count* - Regular physical inventory count must be done at least once a year to reconcile stocks on hand against balances shown in the inventory records. Regular review of expiration dates should also be made to allow usage of drugs and medicines before its expiration dates.

*18. Inactive Therapeutic Committees and Health Boards* - The absence of an active therapeutic committee could lead to the malpractice of each physician recommending their own preferred brands thereby resulting in a long list of items to be procured. This will certainly result in longer procurement processing time.

### III. The New Procurement System of Negros Occidental

The drug procurement model now in place in Negros Occidental is the result of collaborative efforts of several individuals and units of the LGU. Driven by the challenge of having been selected for this demonstration project, each one contributed to arrive at a simplified system of procurement. The model developed combines options to allow the shortest processing and at the same time achieve the procurement objectives. This is the reason for adopting the quarterly bulk purchase to avoid the repetitive procurement process of each hospital. Under this mode, majority of items will be on public bidding, while selected items, will either be procured from direct manufacturers and exclusive distributors subject to the

**Negros Drug Procurement System 8**

recommendation of the Provincial Therapeutic Committee. The second quarter purchase will utilize the concept of purchase re-order from the preceding quarter's winning suppliers, at the same, or lower selling prices. These re-orders will have to be done within 90 days of the last quarter's Purchase Orders. New items not procured on the previous quarter will be procured either through public bidding, direct manufacturers, or exclusive distributors.

It will be noted that some steps were deleted specifically in the purchase request and payment processing sequences, thereby reducing the number of offices handling or processing the procurement documents. Figure 1 presents a comparative flow of the present and proposed sequences of the procurement process.

In summary, the following steps were deleted or changed.

Purchase Request Processing

1. GSO - comparing requests vs. annual procurement program. Document processing passes twice the office of the GSO. First, during comparison of request vs. APP, and second, during the actual bidding process. The former was deleted and it was made the responsibility of the PHO which receives the purchase request from end-user hospitals, to check it against APP.

2. Governor's Approval - Governor's approval comes in two forms. The approval of the purchase request and the voucher for payment. In as much as the APP was previously approved by the Governor during the annual budget preparation phase, and that all items requested are part of the APP, the approval request is deemed redundant.

PROCUREMENT PROCESSING SEQUENCE \*  
(PRIOR TO IMPLEMENTATION OF PILOT PROJECT)

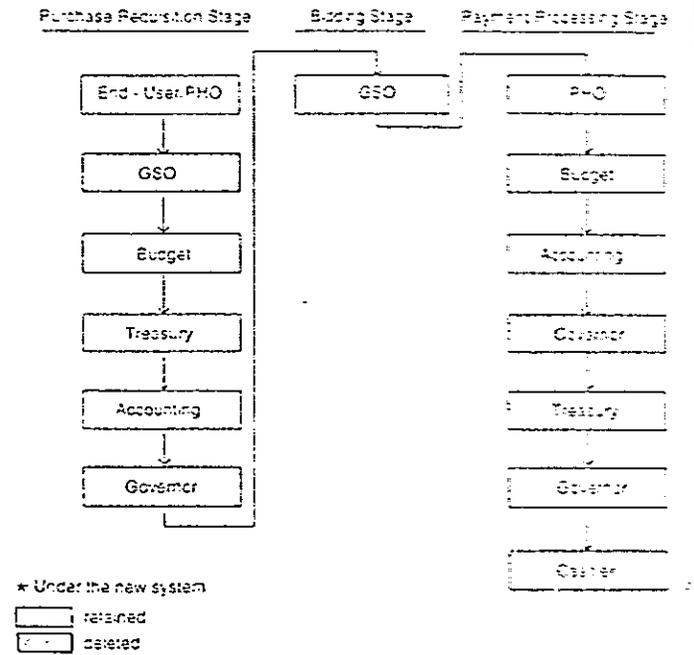


Figure 1

At present, the Governor approves only the request for voucher payment.

Actual Bidding Process

3. GSO consolidates all purchase requests of eleven hospitals for one quarter and conducts one quarterly consolidated bid. It used to be one bid for each hospital request which normally comes at different dates. All hospitals are now required to submit on a stated date to allow for consolidated bidding.

4. The use of purchase re-order, provided this

## Negros Drug Procurement System 7

is done within 90 days from last public bidding, substantially reduces processing time for the succeeding quarter. All that is done is to issue P.Os. to winning suppliers. The provision of the law under this scheme is that price and quantity should be the same or lower, and purchase must be made from the same supplier.

### Payment Processing

5. Budget office no longer process payment vouchers. This step is deleted since the role of the budget office is to certify to the availability of appropriation for requested items. This function was already accomplished when they earlier passed on the purchase request.

6. Voucher approval by the Governor is now done simultaneously with the signing of the check. In the payment processing sequence, the documents pass through the Office of the Governor twice. First, by signing the voucher which then goes to the Treasurer's Office for check preparation and second, during the actual signing of the check. With this new sequence, the document could now go to the Governor's office once.

### Other Areas of Improvement

1. All purchase requests are compared with the APP to ensure that they are included therein. Each hospital prepares their respective APPs. To facilitate comparison by the PHO staff, a standard sequence of listing and clustering of drugs and medical supplies is recommended for easy comparison. The use of pre-printed forms will further facilitate preparation of APPs and purchase requests.

2. Attitudinal change also plays an important role in expediting processing. Commitment among participants to the system to give priority to drug procurement also made processing faster. The goal of continuously improving processing time

has now become a continuing challenge to LGU personnel.

3. The hospital therapeutic committees and the provincial therapeutic committee play a very important role in the simplification of the procurement processing. The hospital therapeutic committee has to be actively involved in the preparation of the annual procurement plan and has to decide on the type and volume of drugs and medical supplies to be requested per quarter. As there are various brands for each drug and medical supply, allowing each medical staff to include their favored brands in the APP and the quarterly requisition will result in a long list of APPs and PRs. The APP of each hospital needs also to be reviewed by the Provincial Therapeutic Committee for the same reason.

4. An updated inventory reporting system must be installed at the hospital level. A simplified procurement system will make drugs and medical supplies available at the hospitals. However, if there is no effective inventory management where updated ledger cards are maintained to record receipts and issuances and periodic physical counts, the situation could lead to overstocking or certain items expiring. A decision has to be made on the "minimum safety stock" and "re-order points."

The new model is now in the process of undergoing continuing refinements. The process was reviewed thoroughly in terms of compliance with existing laws and regulations. It was presented in the Devolved Hospital Administrators' Workshop held in Cagayan de Oro last November 16 and 17, 1994. Also in attendance were key COA regional officers. In that presentation, the system passed the scrutiny of auditors as well as hospital administrators. What is now left to be done to continuously improve the system by reducing the number of processing days until it reaches the goal of 15 working days under a

## Negros Drug Procurement System 8

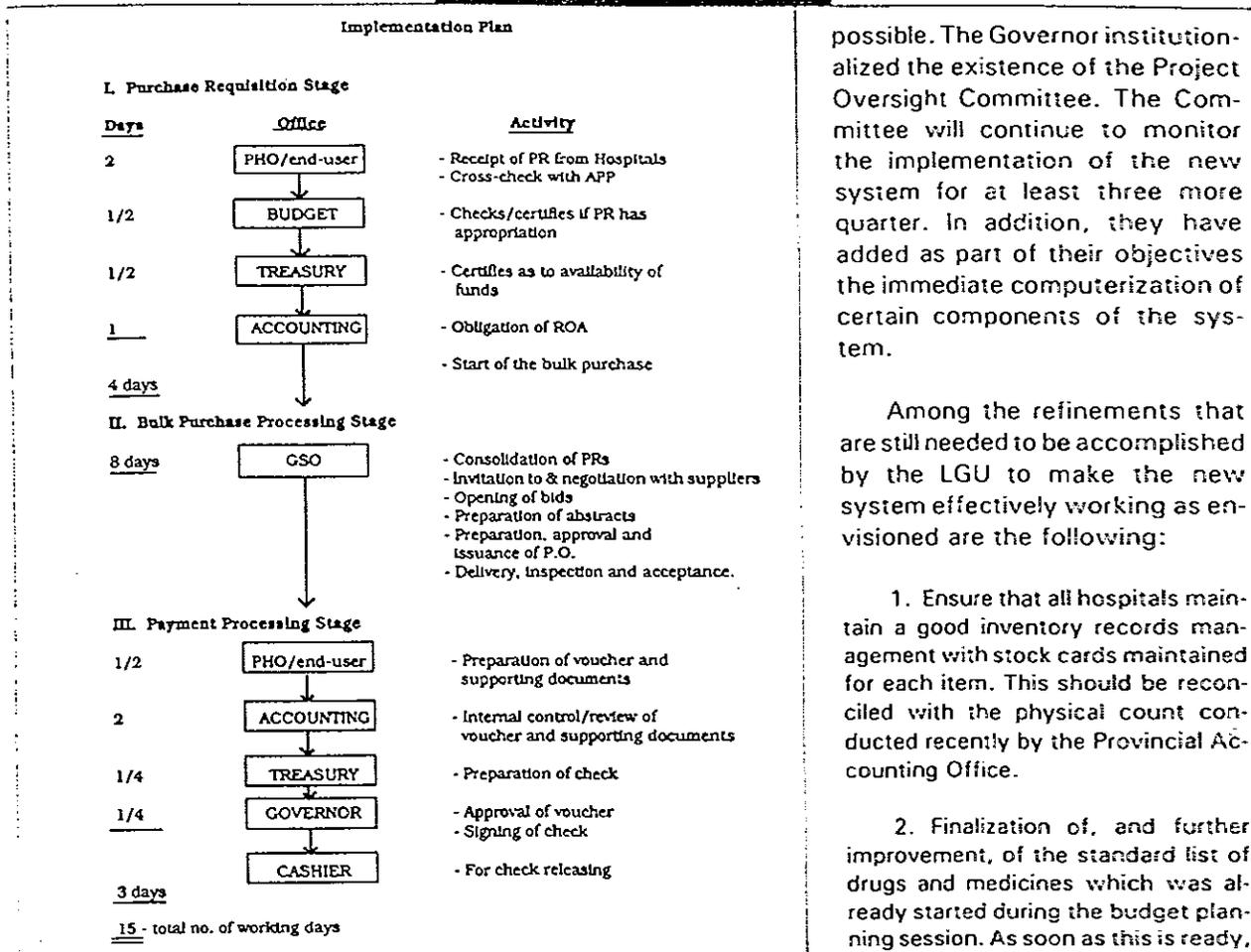


Figure 2

public bidding mode. Figure 2 illustrates the procurement process flow followed during the pilot run.

### V. Making New Procurement System Sustainable

The concept of continuous improvement to further reduce the number of processing days is the objective set by the participants to this pilot project. The gains achieved so far by the LGU gave them the optimism that improvements are

possible. The Governor institutionalized the existence of the Project Oversight Committee. The Committee will continue to monitor the implementation of the new system for at least three more quarters. In addition, they have added as part of their objectives the immediate computerization of certain components of the system.

Among the refinements that are still needed to be accomplished by the LGU to make the new system effectively working as envisioned are the following:

1. Ensure that all hospitals maintain a good inventory records management with stock cards maintained for each item. This should be reconciled with the physical count conducted recently by the Provincial Accounting Office.

2. Finalization of, and further improvement, of the standard list of drugs and medicines which was already started during the budget planning session. As soon as this is ready, pre-printed forms will now be used

making it easier to prepare the annual procurement plan, the purchase request and even the conduct of inventory count.

3. The bigger hospitals (provincial and districts) should now be introduced to computerized inventory system. The one developed under the Health and Management Information System (HAMIS) - Logistic System - is highly recommended.

4. A general orientation meeting to be attended by all interested suppliers to acquaint them with the new system. Making the suppliers aware of the new system will also motivate them to regularly participate and even ensure competitive bid prices.

#### **IV. THE PROCUREMENT PROCESS**

**Stage 1. PR/ROA Processing**

**Stage 2. Bidding Process**

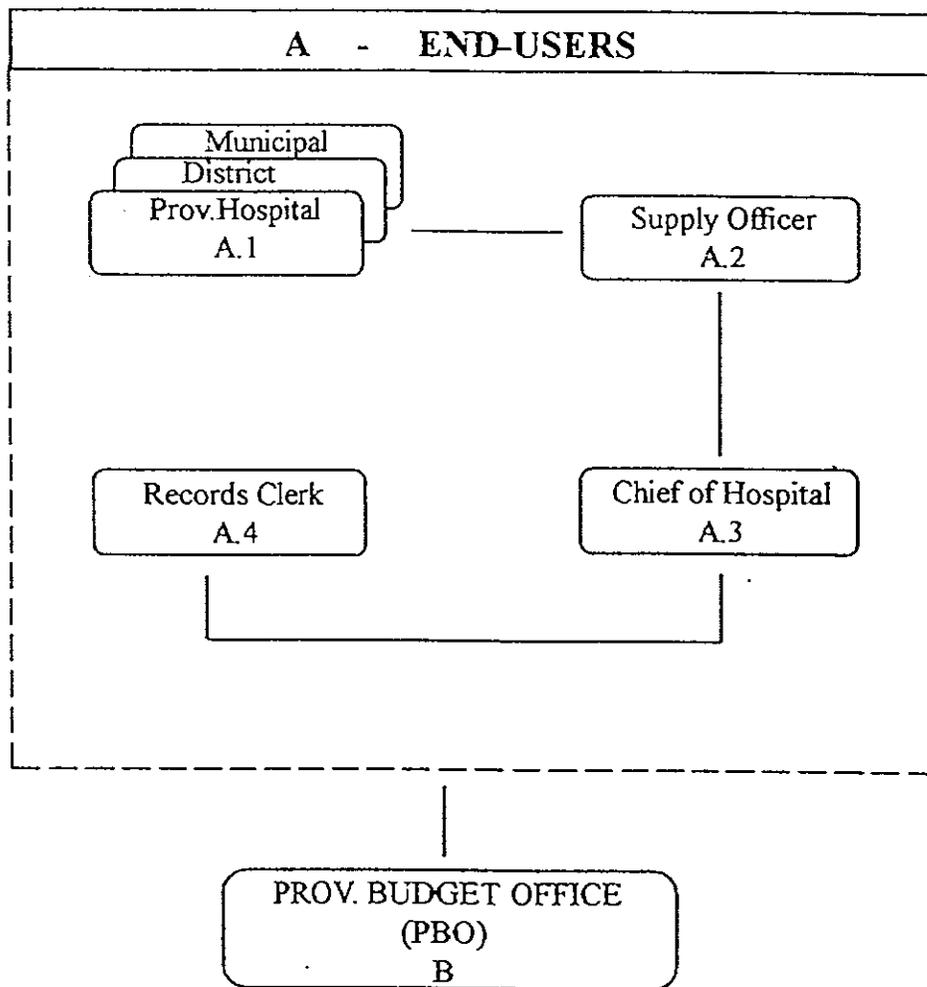
**Stage 3. Payment Processing**

Purchase Request (PR) / Request for Obligation of Allotment (ROA) Processing Stage

OFFICE	DOCUMENT/S USED	ACTION/S TAKEN
END - USERS (Different Hospitals) A	PR / ROA	Consolidation of requests of different units in the hospital under one Purchase Request
PROV. BUDGET OFFICE (PBO) B	PR / ROA	Certification on ROA that appropriation exists
PROV. TREASURER'S OFFICE (PTO) C	PR / ROA	Certification on ROA that funds are available
PROV. ACCOUNTING OFFICE (PAO) D	PR / ROA	Certification on ROA that amount of expenditure has been obligated
PROV. GOVERNOR'S OFFICE (PGO) E	PR / ROA	Approval of requisition by the Provincial Governor

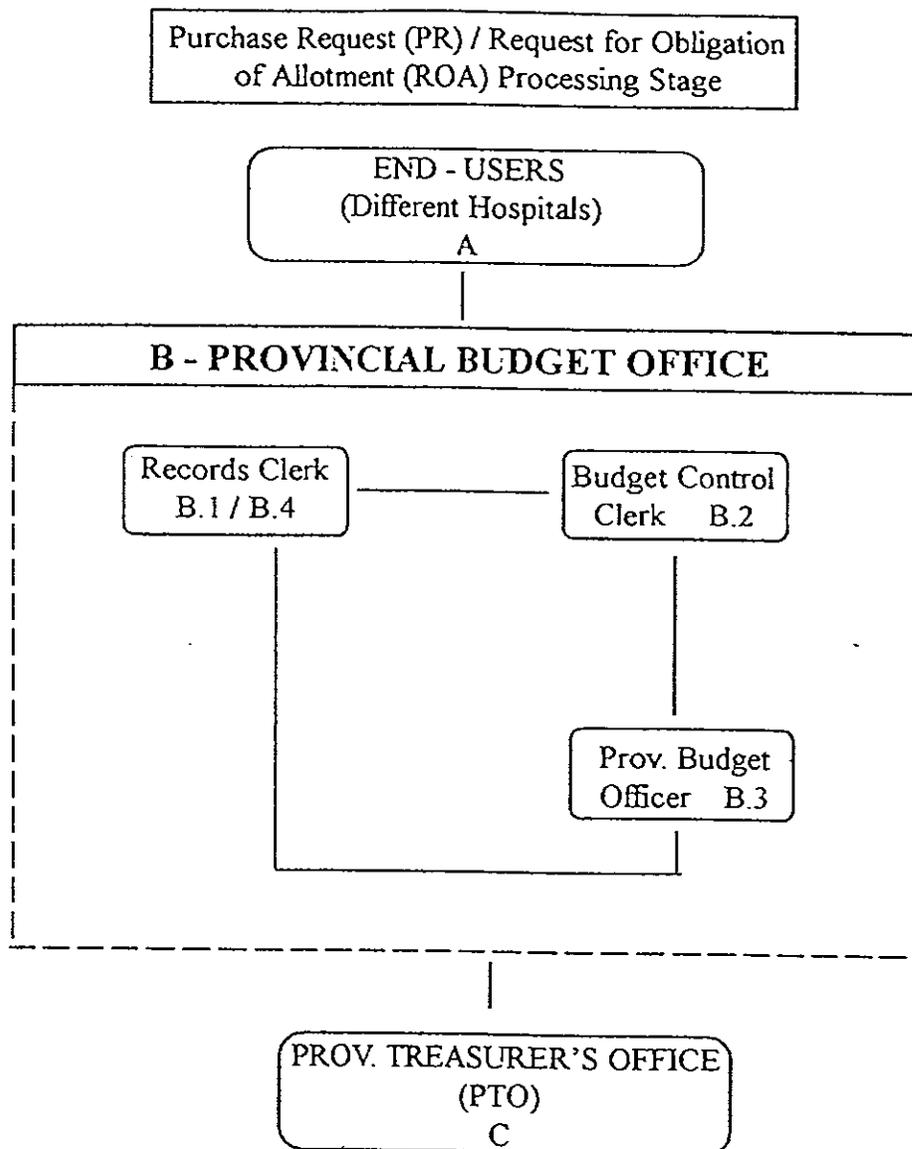
Note:  
 A - End-user hospitals include the provincial, district and municipal hospitals

Purchase Request (PR) / Request for Obligation  
of Allotment (ROA) Processing Stage



**A - END-USERS**

- A.1 - At the level of the Provincial, District and Municipal Hospitals, different sections of the hospital will be submitting their requisitions covering a certain period.
- A.2 - The requisition slips are sent to their respective Supply Officers for preparation of PR/ROA. They also check if items requested appear in the annual procurement plan.
- A.3 - The chief of hospital signs the PR.
- A.4 - The PR / ROA goes to the records clerk for recording and releasing to the PBO.



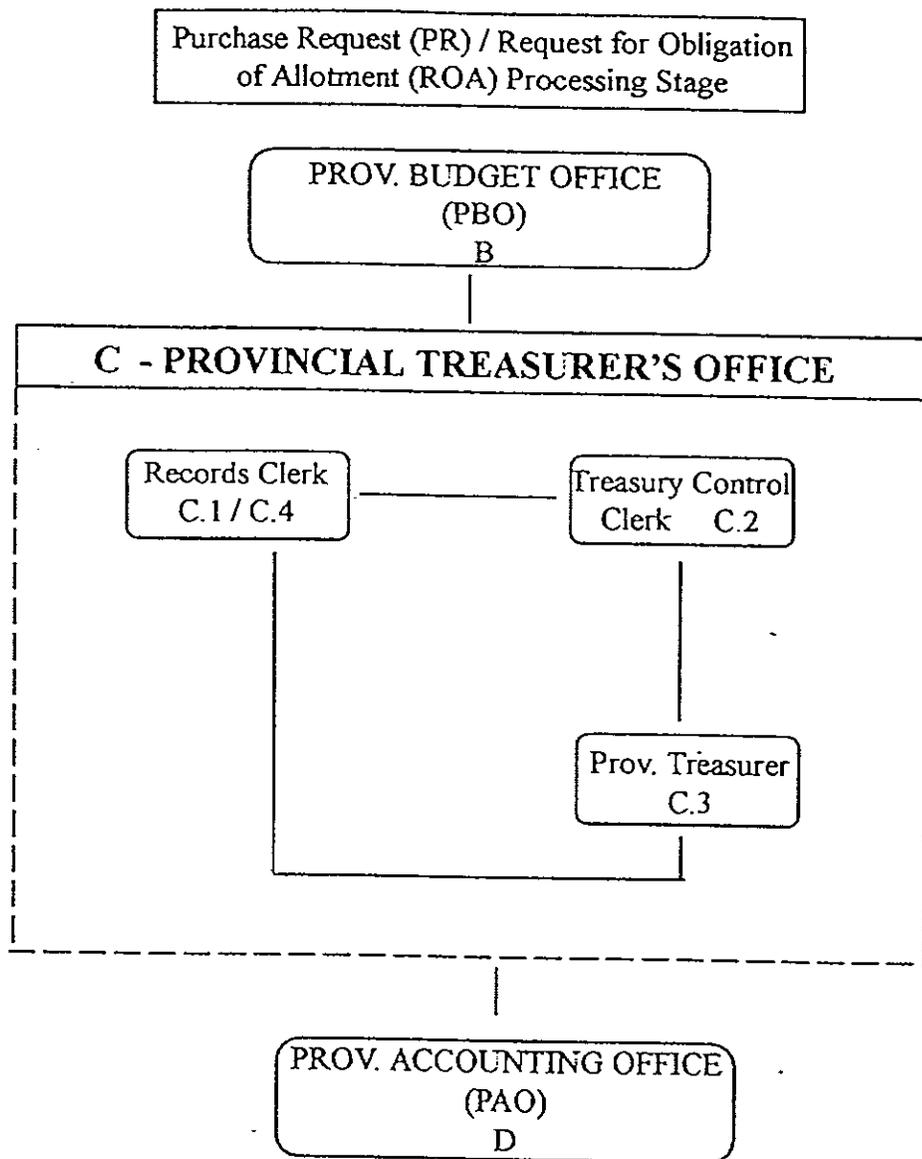
### B - PROVINCIAL BUDGET OFFICE

B.1 - Receives documents from IPHO and records in the logbook.

B.2 - Verifies / Checks existence of appropriation.

B.3 - Signs to certify that appropriation exists.

B.4 - Records the release of documents to Provincial Treasurer's Office.



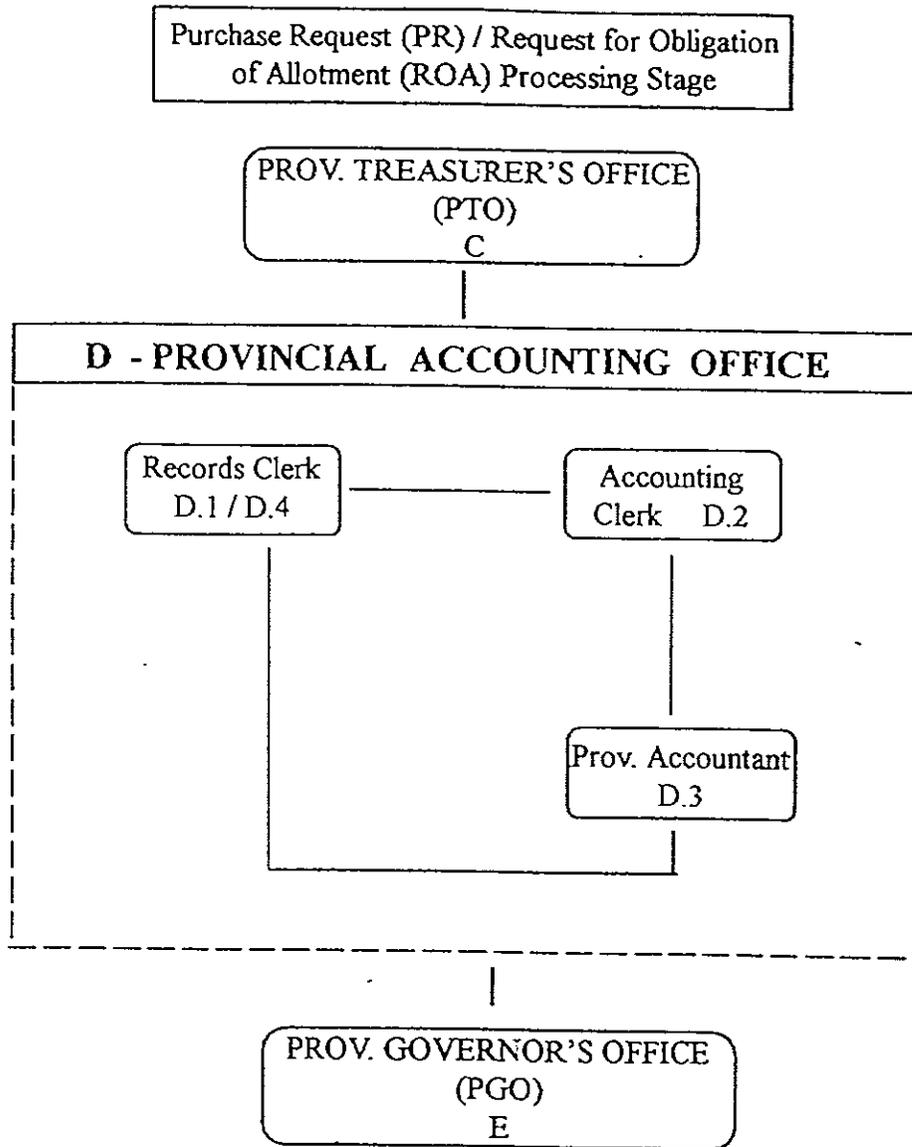
### C - PROVINCIAL TREASURER'S OFFICE

C.1 - Receives documents from PBO and records in the logbook.

C.2 - Verifies / Checks availability of funds.

C.3 - Signs to certify that funds are available.

C.4 - Records the release of documents to Provincial Accounting Office.



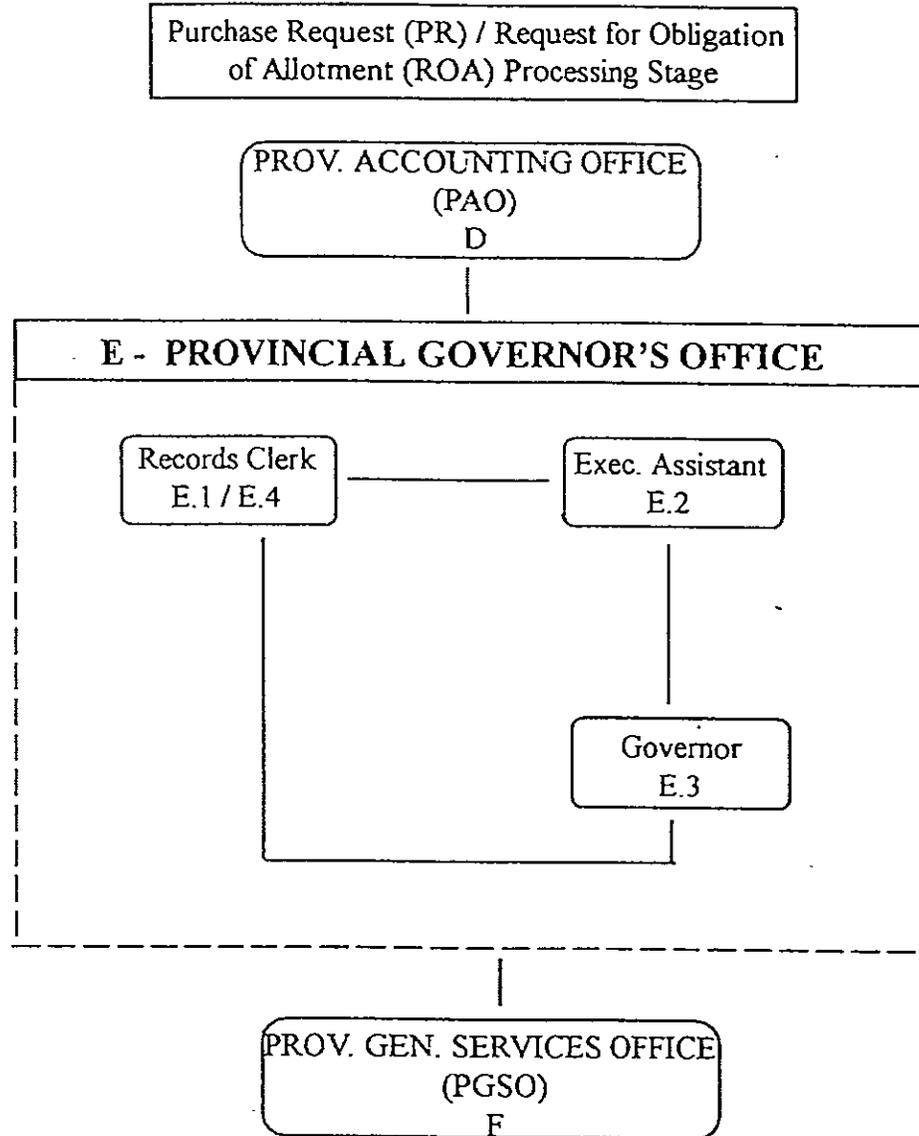
#### D - PROVINCIAL ACCOUNTING OFFICE

D.1 - Receives documents from PTO and records in the logbook.

D.2 - Verifies / Checks amount to be obligated.

D.3 - Signs to certify that amount has been obligated.

D.4 - Records the release of documents to Provincial Governor's Office.

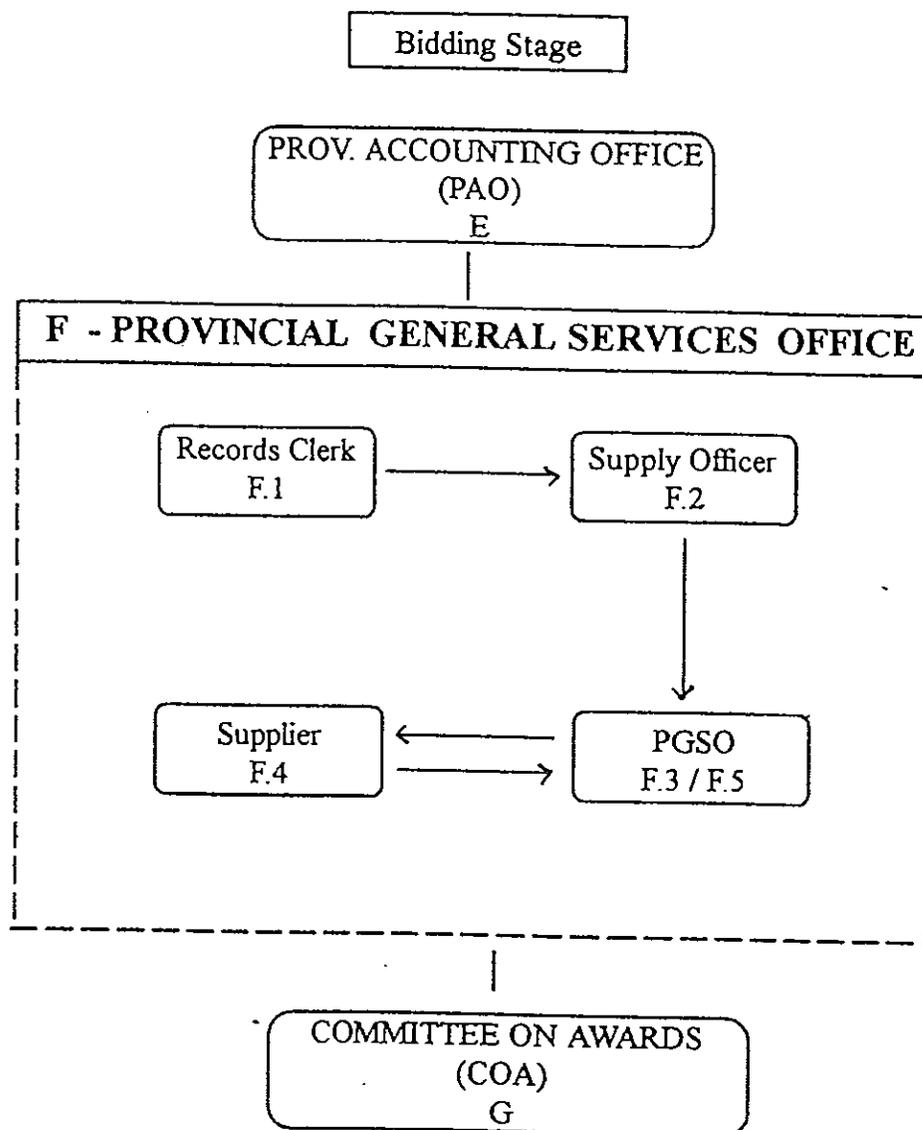


### E - PROVINCIAL GOVERNOR'S OFFICE

- E.1 - Receives PR/ROA from Provincial Accounting Office. Records in logbook and forwards to Executive Assistant.
- E.2 - Executive Assistant reviews / checks / verifies, then forwards to the Governor.
- E.3 - Governor signs the PR.
- E.4 - Records document for release to the Provincial General Services Office.

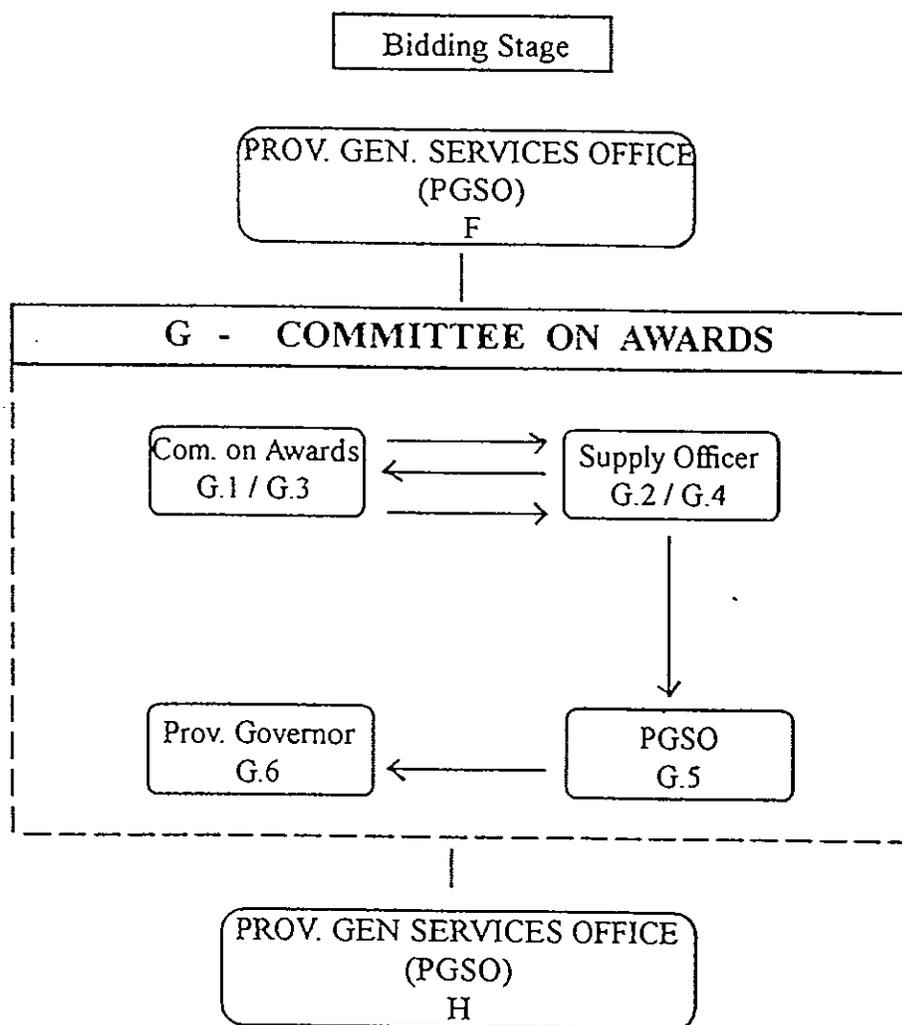
Bidding Stage

OFFICE	DOCUMENT/S USED	ACTION/S TAKEN
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; margin-bottom: 5px;">                     PROV. GEN. SERVICES OFFICE (PGSO) F                 </div>	PR / ROA ITB Sealed Bids	Signature on PR Issuance to suppliers of ITBs Sealed Bids Received
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; margin-bottom: 5px;">                     COMMITTEE ON AWARDS (COA) G                 </div>	Abstract of Bids Purchase Order	Opening of Bids Preparation and signee of abstract of bids Preparation and approval of POs
<div style="border: 1px solid black; border-radius: 10px; padding: 5px;">                     PROV. GEN. SERVICES OFFICE (PGSO) H                 </div>	Purchase Order Delivery Receipt Invoice Inspection Report	Sending out of POs Receipt of Deliveries Inspection of Deliveries by ICU



#### F. PROVINCIAL GENERAL SERVICES OFFICE

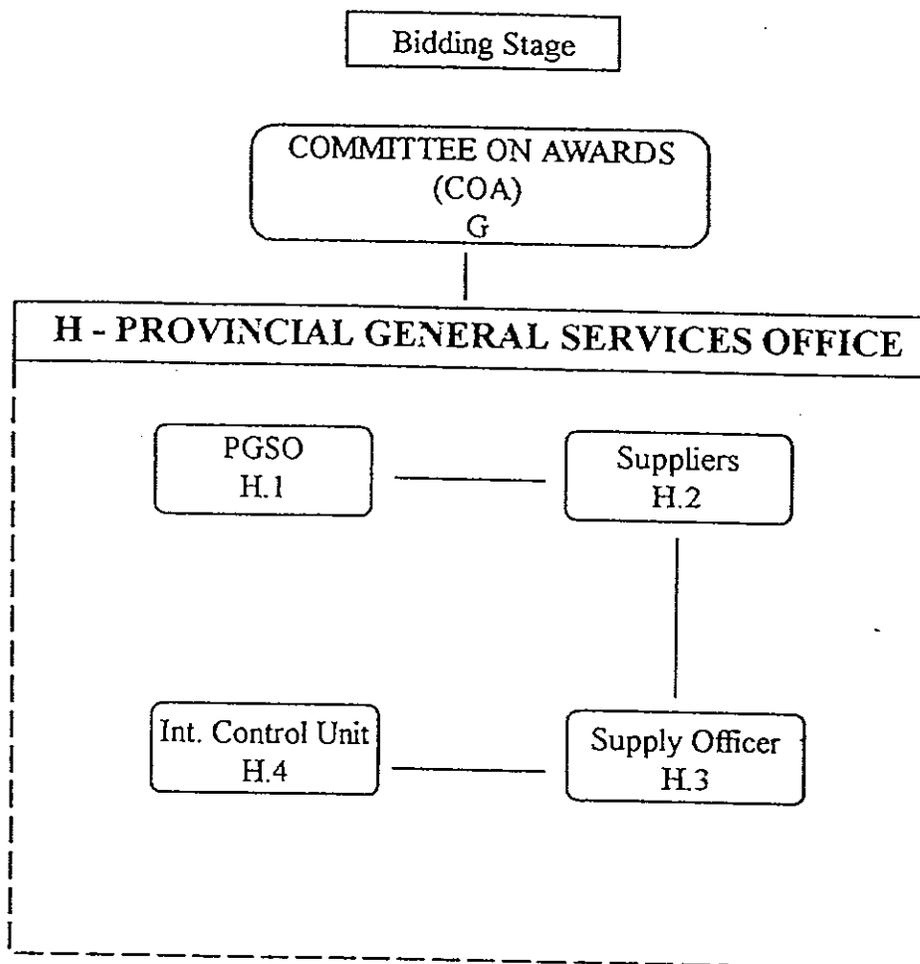
- F.1 - Records in the logbook PR/ROA received from PAO
- F.2 - Supply Officer receives / initials PR for signature of PGSO
- F.3 - PGSO signs PR  
Issues Invitation to Bids (ITB) to suppliers
- F.4 - Suppliers receives ITB
- F.5 - PGSO receives sealed bids from suppliers



### G. COMMITTEE ON AWARDS

- G.1 - Committee on Awards opens bids submitted by suppliers
- G.2 - Supply Officer prepares abstract of bids
- G.3 - Members on Committee on Awards sign AOB
- G.4 - Supply Officer prepares POs
- G.5 - PGSO signs POs
- G.6 - Governor signs POs

**Note:** The Committee on Awards is chaired by the Governor with the following as members: Budget Officer, Treasurer, Accountant, General Services Officer and the Provincial Health Officer.



#### H. PROVINCIAL GENERAL SERVICES OFFICE

H.1 - PGSO sends out POs to winning suppliers.

H.2 - Suppliers make deliveries.

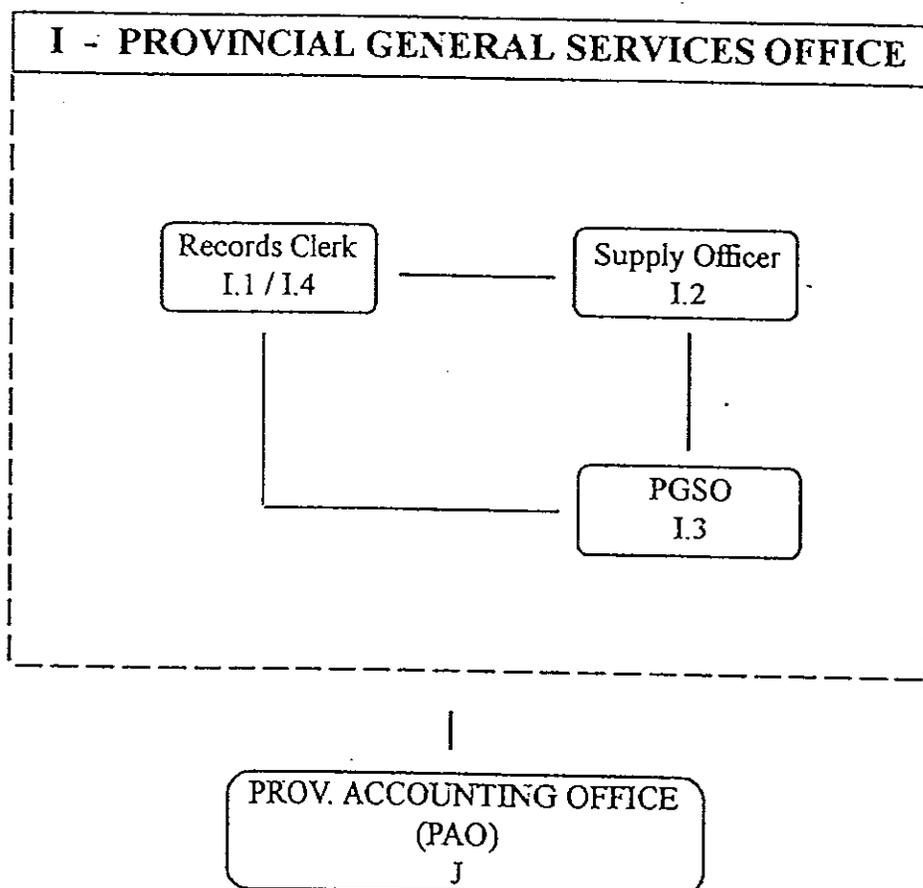
H.3 - IPHO - SO receives deliveries for the provincial hospital.  
PGSO - SO receivers deliveries for other hospitals.

H.4 - Internal Control Unit inspects deliveries and prepares the inspection report.

Payment Processing Stage

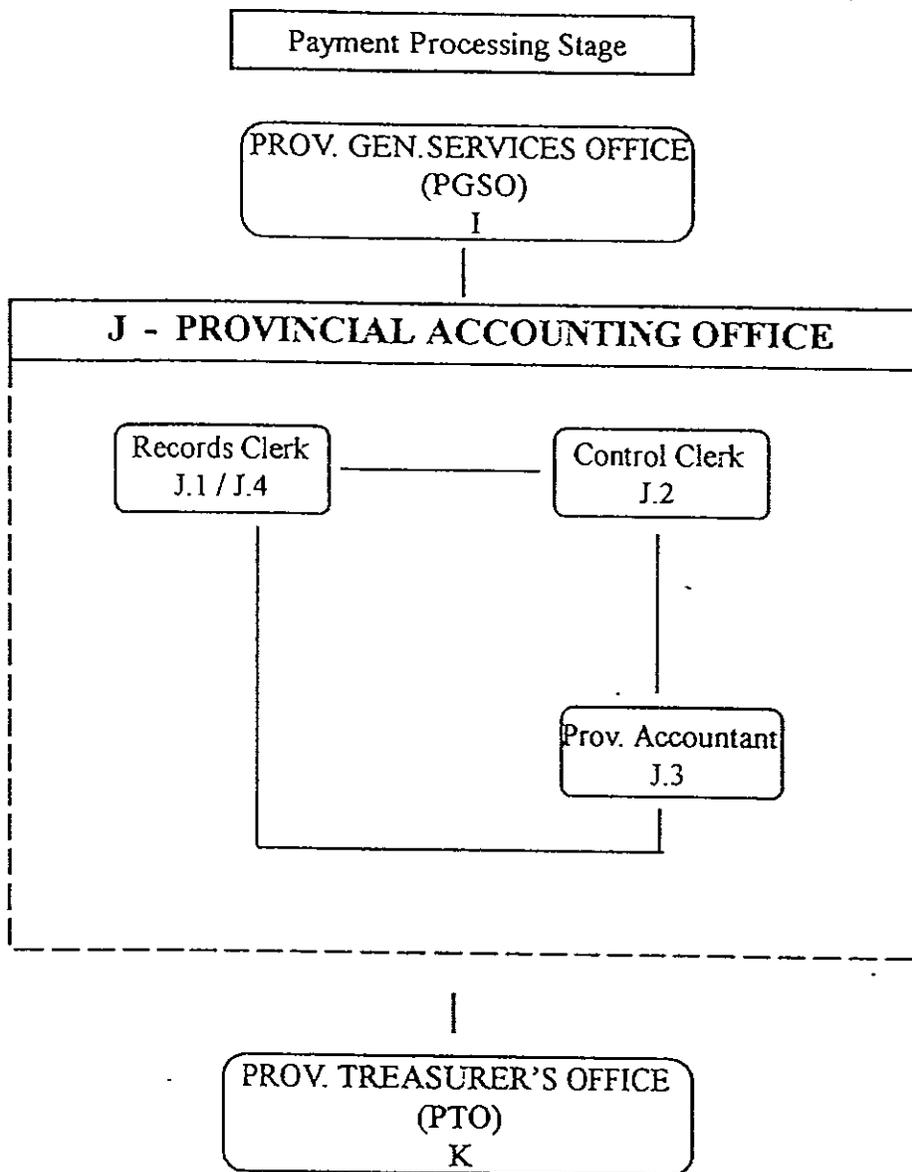
OFFICE	DOCUMENT/S USED	ACTION/S TAKEN
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; margin: 5px auto; width: 80%;">                     PROV. GEN. SERVICES OFFICE (PGSO) I                 </div>	Disbursement Voucher with supporting documents	Preparation and signature of disbursement vouchers by PGSO
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; margin: 5px auto; width: 80%;">                     PROV. ACCOUNTING OFFICE (PAO) J                 </div>	- same as above -	Certifies that DVs are supported with receipts
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; margin: 5px auto; width: 80%;">                     PROV. TREASURER'S OFFICE (PTO) K                 </div>	Disbursement Voucher Check	Preparation and signing of checks by the treasurer.
<div style="border: 1px solid black; border-radius: 10px; padding: 5px; margin: 5px auto; width: 80%;">                     PROV. GOVERNOR'S OFFICE (PGO) L                 </div>	- same as above -	Approval of the DVs Signing of checks

## Payment Processing Stage



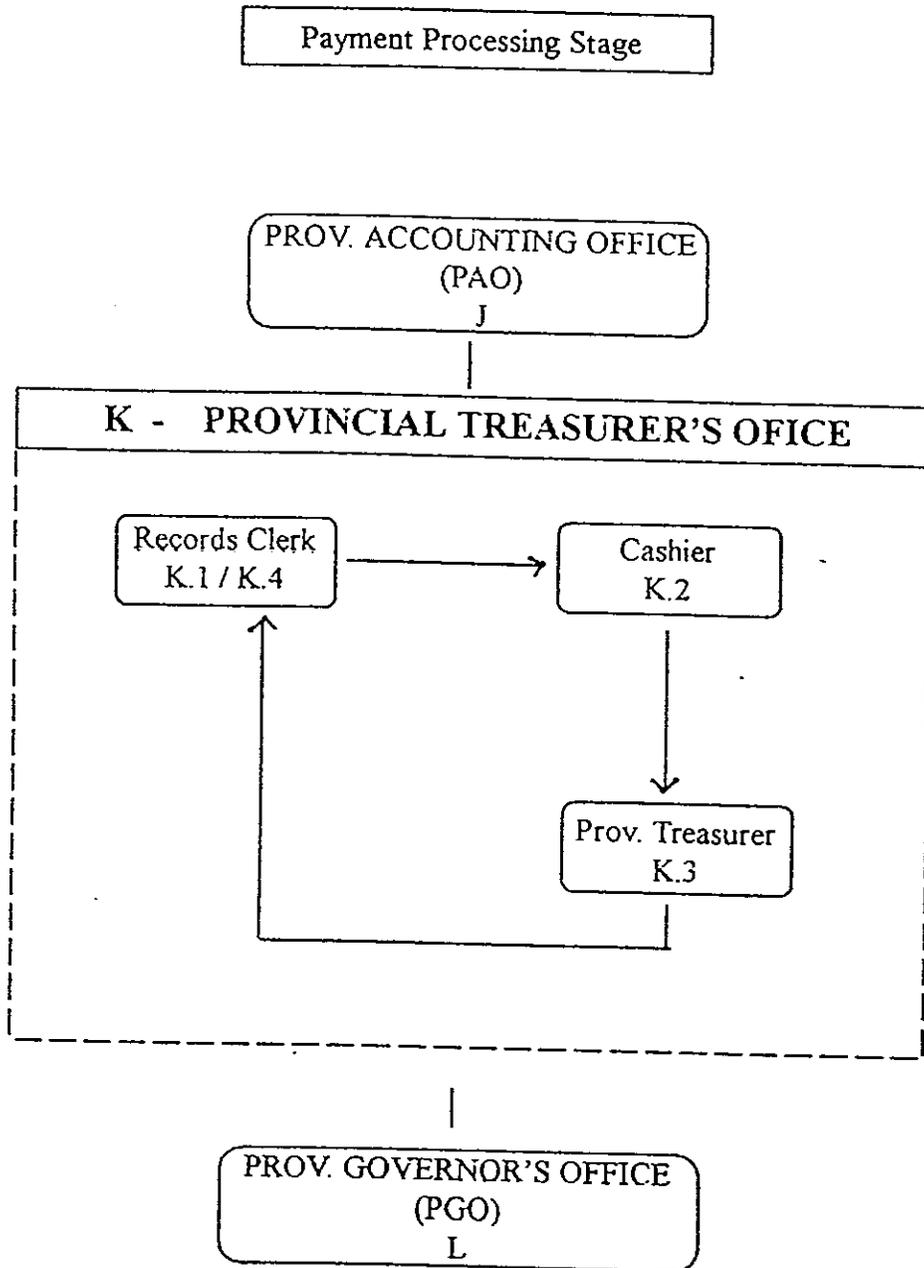
## I. PROVINCIAL GENERAL SERVICES OFFICE

- I.1 - Gathers documents to support disbursement vouchers
- I.2 - Preparation of disbursement vouchers
- I.3 - PGSO signs the disbursement vouchers
- I.4 - Records DVs and transmits to PAO



J. PROVINCIAL ACCOUNTING OFFICE

- J.1 - Records Clerk receives DVs from IPHO
- J.2 - Control Clerk/s pre-audits, verifies with JAO, records in index card (subsidiary)
- J.3 - Provincial Accountant certifies that expenditures are properly supported with documents.
- J.4 - Records Clerk releases documents to Provincial Treasurer's Office



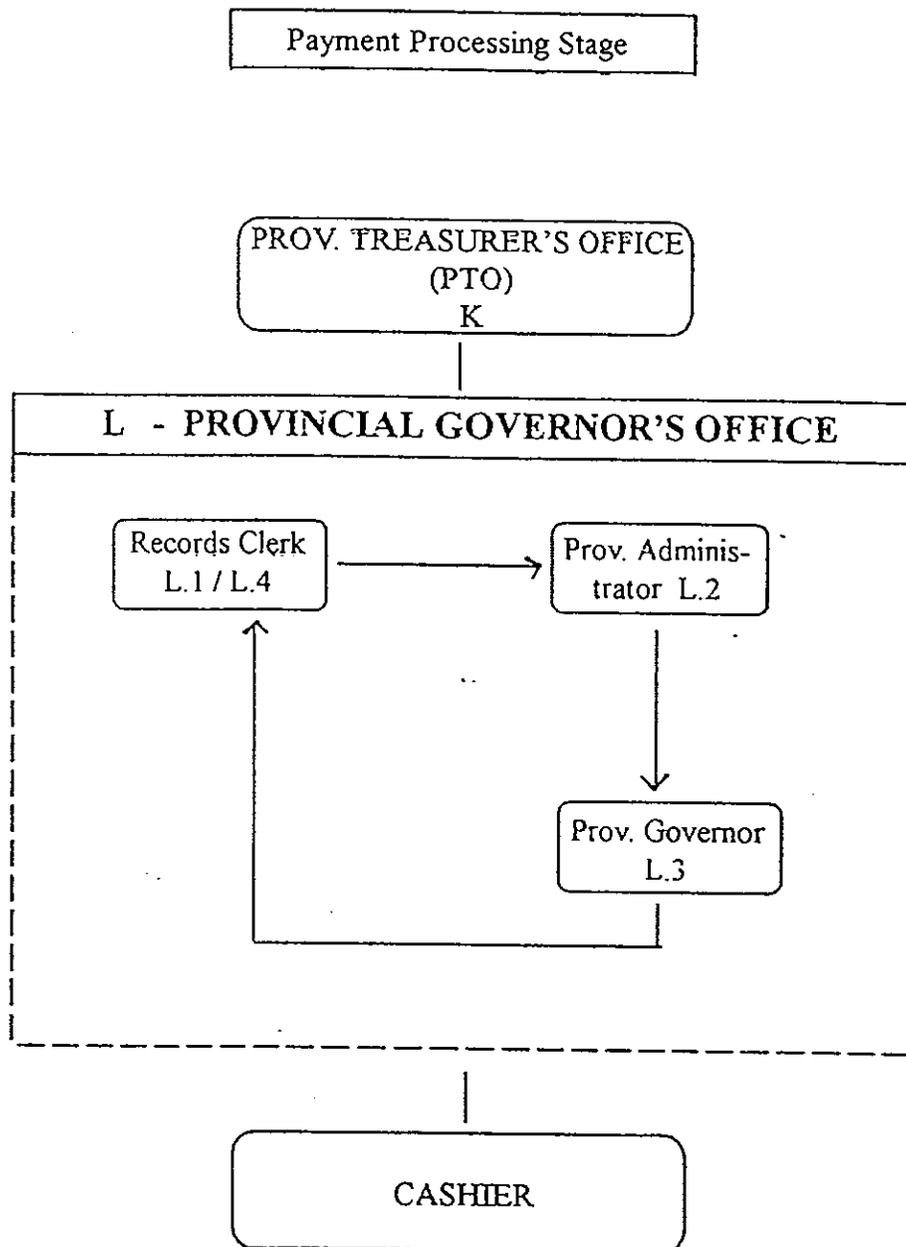
K. PROVINCIAL TREASURER'S OFFICE

K.1 - Records Clerk receives DVs from PAO

K.2 - Cashier prepares checks

K.3 - Provincial Treasurer signs checks

K.4 - Records Clerk releases documents to Provincial Governor's Office



L. PROVINCIAL GOVERNOR'S OFFICE

- L.1 - Records Clerk receives DVs and checks from PTO
- L.2 - Provincial Administrator reviews DVs and checks
- L.3 - Provincial Governor signs DVs and checks
- L.4 - Records Clerk releases documents to Cashier