A STUDY OF THE PURCHASING SYSTEM AT PRESBYTERIAN HOSPITAL OF DALLAS

A Problem Solving Project Report

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CHAPTER I

INTRODUCTION

General Information

The philosophy that health care is the right of every citizen, rather than a privilege of the financially affluent, has increased not only the utilization of health care facilities but also the expenses incurred in their operation. Aware of the increased demands upon the hospital's resources, administrators have undertaken intensive management and operational reviews in order to identify those areas of their organization which could be operated more efficiently and more economically. An area receiving significant attention is that of purchasing.

The purchasing activity has the objectives of obtaining the required items in the right quantity, at the right time, at the right place, from the right source, and at the lowest possible cost consistent with quality.[1] In order to attain these objectives, adequate plans, policies, procedures, and systems must be implemented and utilized.

In addition to written guidance and operating systems, purchasing must be considered as an integral management function and must receive the same respect, support,

and guidance from the hospital administrator as do the other administrative and professional activities within the hospital.

Hospital Setting and History

The Presbyterian Hospital of Dallas, Texas, is a nonprofit corporation chartered in 1958, under the laws of Texas, to serve Dallas and the surrounding areas.

Construction of the twelve-story facility began in 1963 on a seventy-one-acre site in the northern metropolitan area of Dallas. In May, 1966, the hospital commenced operations with a 350-bed capacity, expandable to 500 beds. Presbyterian Hospital is the first major general hospital to be established in Dallas since 1927.

The Presbyterian Hospital offers a full range of diagnostic and treatment facilities for medical, surgical, obstetric, and prediatric care. In its endeavor to provide a full range of comprehensive medical care, the hospital has established a relationship involving a program of teaching and research with the University of Texas Southwestern Medical School. A portion of the seventy-one-acre hospital site has been dedicated for research, laboratory, and teaching facilities in order to provide both a physical and a geographical enlargement of the Southwestern Medical School.

In keeping with its philosophy of meeting the classic health needs of the community (patient care, medical teaching, and medical research), a major expansion program has been undertaken. From the time of its opening in May, 1966, with 153 patients, the hospital has continued to expand and is presently operating at its 350-bed capacity. Expansion to 500 beds is planned during mid-1971. A twenty-six-bed psychiatric unit was recently opened, and the opening of a stroke demonstration unit is anticipated in the near future. A professional office building is now under construction adjacent to the hospital which will provide office facilities for approximately sixty physicians. Mid-1969 is the scheduled opening date for this facility. As additional land and financial resources become available, additional buildings for research, education, housing for interns and residents, and a school of nursing will be constructed.

The continual expansion of the professional capabilities also makes it imperative that bilateral expansion of the administrative capabilities takes place. This is especially pertinent in the area of purchasing. The organizational and operational structure for the 350-bed facility will not be adequate for a 500-bed facility with the additional research, teaching, and educational operations.

Continual short- and long-range planning must be made in the purchasing area in order to have adequate systems, policies, procedures, staffing, and physical facilities available to support the expanding professional capabilities of the hospital.

Conditions Which Prompted the Study

The expanded patient capability and the range of services being provided by the hospital have created operational and procedural problems concerning the purchasing and receiving of and the payment for supplies. The hospital administrator, realizing that problems existed, requested that this study be conducted. This study is being conducted in an effort to assist the administrator in determining the best system for solving these purchasing problems.

Footnotes

[1]Stuart F. Heinritz and Paul V. Farrell, Purchasing Principles and Applications (4th ed.; Englewood Cliffs: Prentice-Hall, Inc., 1965), p. 7.

CHAPTER II

THE PROBLEM

Statement of the Problem

The problem is to determine the best system for controlling the requisitioning, purchasing, and receiving of and the payment for supplies at the Presbyterian Hospital, Dallas, Texas.

Objective

In order to determine a solution to this problem, an analysis and evaluation of the present purchasing system and of the alternate systems is necessary.

Definitions

The following definitions are offered as clarification of the various supply terms used in this study.

Centralized purchasing is the system whereby total purchasing authority and responsibility is assigned to one specific individual or department.

Decentralized purchasing is the system whereby each individual department or activity chief executes the purchasing function for his department or activity.

Group purchasing is a system whereby two or more institutions combine all or portions of their purchasing functions and create one purchasing activity to serve all participants.

A nonstocked item is an item which is not carried on-hand in the inventory and which requires individual purchasing.

Standardization is the acceptance of a specific product or service for use by all departments within the hospital.

The stockage level is the quantity of an item required to be on-hand and on order to support current operating requirements.

A stocked item is an item carried on-hand in the inventory and for which a stock record card is maintained.

Unauthorized purchases are purchases of supplies, equipment, or services for the hospital executed by someone other than the purchasing officer or his authorized representative.

Unmatched documents are invoices received at the business office without matching receiving reports.

Criteria

The following standards have been established as

criteria against which a new purchasing system may be judged. In order to be effective and to provide a realistic solution to the current purchasing problems within the hospital, the system must be able to provide:

1. A flexible and adaptable system for future workloads.

2. A reduction in the number of unmatched documents.

3. A reduction in the manhours spent reconciling missing or unmatched documents.

4. An elimination of unauthorized purchases.

5. A reduction in the lag time between the receipt of items in the receiving section and the receipt of verification documents at the business office.

Limitations

The hospital administrator has established certain limitations in order to confine the conduct and the conclusions of this study within a sphere of operational reality: (1) ADP/EDP applications will not be considered at this time and (2) additional personnel may not be hired to implement a new system until the hospital expands to 500 beds.

Factors Bearing on the Problem

An awareness of several factors which have significant implications concerning the problem is necessary for a

complete understanding of the situation:

1. The present system is not totally adequate.

2. The present system does not provide for written policies, directives, or procedures concerning the purchasing function.

3. The administrator does not receive purchasing activity reports or maintain statistical or performance data.

4. The purchasing officer is not integrated within the management structure of the hospital.

5. A stockage level has not been established.

6. The pharmacy department, the dietary department, and the gift shop are not required to purchase their supplies through the purchasing office.

Assumptions

Several assumptions are made concerning the hospital's operations in order to maintain the study within realistic perimeters:

1. The occupancy rate and the overall workload of the hospital will continue to increase.

2. The workload of the purchasing department will continue to increase.

3. The capacity of the hospital will expand to 500 beds during 1971.

4. The demand for supplies and services will continue to rise.

5. The variety and mix of supplies and services required to support future requirements will continue to rise.

6. The storage space now available is adequate; however, additional space will be required in the future.

7. The manpower requirements will increase as workload and occupancy rates increase.

CHAPTER III

RESEARCH METHODOLOGY

A literature review was accomplished to familiarize the writer with current purchasing systems, policies, and procedures in use within the health care industry. In order to obtain information concerning the practicality and the applicability of the systems, the policies, and the procedures discussed in the literature and to observe their operational application, interviews were conducted with purchasing and administrative personnel at local hospitals.[1] The analysis, the comparison, and the evaluation of theoretical and actual purchasing operations, and the personal experience as a purchasing officer, enabled the writer to gain an insight into the total area of hospital purchasing.

Data concerning the purchasing system within Presbyterian Hospital were obtained through interviews with personnel in the administrative, the business, and the purchasing offices.[2] Additional statistical data concerning patient census, dollar value of hospital purchases, and dollar value of purchasing activity were collected by a review of the hospital's administrative and financial records.[3]

Time studies were conducted by personnel in the purchasing and the business offices to determine the amount of time being spent on various purchasing and financial activities, such as reconciliation of invoices and receiving reports and auditing of purchasing transactions.[4]

Footnotes

[1]Robert J. Mykleby, private interview held at Scott and White Memorial Hospital, Temple, Texas, April 10, 1969; Bernard Rappaport, private interview held at Santa Rosa Medical Center, San Antonio, Texas, April 24, 1969.

[2]Leonette Burgess and Helen Flood, private interview held at Presbyterian Hospital, Dallas, Texas, May 6, 1969; William Haire, private interview held at Presbyterian Hospital, Dallas, Texas, May 8, 1969; Mary Yates, private interview held at Presbyterian Hospital, Dallas, Texas, February 27 and April 30, 1969.

[3]Presbyterian Hospital, Dallas, Texas, review of monthly financial and administrative reports, February, 1969.

[4]Leonette Burgess, Helen Flood, and Mary Yates, study conducted at Presbyterian Hospital, Dallas, Texas, February 27 to March 14, 1969.

CHAPTER IV

LITERATURE REVIEW

In the past, the purchasing function within the hospital was conducted as a secondary duty by someone such as the administrator, the business manager, or the central material supply supervisor. In some instances, a purchasing agent was employed and had the primary responsibility of purchasing the supplies and services for the hospital. However, in many institutions, no specific individual had the responsibility for total purchasing; therefore, each department conducted its own purchasing. This independent or decentralized form of purchasing is still practiced in some hospitals.

As hospitals continued to grow and sound management techniques were applied to hospital administration, it became apparent that individual purchasing was not the most effective means of obtaining supplies and services for the hospital. In addition to being impervious to the total material requirements of the hospital, individual purchasing required that professional manpower be devoted to an administrative function. William Pauley, commenting upon the

practice, stated:

> . . . Anyone in hospital management who condones, advocates or permits decentralized purchasing in any degree or permits haphazard, unorganized buying, or fails to place trained personnel in a properly organized, adequately staffed materials department contributes to unnecessary costs in hospital operations.[1]

The primary role of the individual responsible for purchasing must be to provide the supplies and services required to support the hospital's operation in the most efficient and the most economical manner. This can be accomplished only by the sound management and organization of the purchasing function.

Duties and Responsibilities

As the importance of purchasing as a management function was recognized, the duties and responsibilities of the purchasing officer became more comprehensive.

The original duties of the purchasing officer, or agent, were confined to receiving the orders, creating the proper documentation, receiving the item, and storing and issuing it to the requesting individual or department. The purchasing agent was not considered as a part of the management team, nor was his advice or recommendations sought in connection with what supplies and services should be purchased. He was, quite simply, an order taker. Mr. Kenneth J.

Scully, commenting upon the duties of the purchasing agent, stated:

> The term "purchasing agent" connotes a middleman between the supplier and the hospital, paid by the hospital to purchase on behalf of the hospital and who should be responsible only for the efficient operation of the purchasing activity. Hospitals cannot afford to use middlemen of the payroll in this capacity. A man on the payroll should be part of the organization, not a middleman or agent.[2]

These confined duties and responsibilities of the purchasing agent have evolved into the much broader area of total materials management. The modern purchasing officer is involved in the full spectrum of those activities required for the efficient and the economical material support of the hospital. His duties and responsibilities include not only operating the purchasing office but also requirements determination, inventory control and maintenance, procurement research, value analysis engineering, budgeting, stores operation, quality and quantity control, product evaluation, market research, cost analysis, accounting, distribution, property disposal, and product standardization. He is a member of the management staff, responsible for developing and maintaining an efficient materials management organization with solid policies, procedures, and plans.[3]

Objectives of Purchasing

The broader duties and responsibilities of the

purchasing function have redefined the objectives of purchasing. In addition to the primary objectives previously discussed, purchasing has several other important objectives:

1. To provide a continual flow of materials and services.

2. To buy competitively and wisely.

3. To keep inventory losses at a minimum.

4. To maintain the minimum level of inventory, consistent with safety and economic advantages.

5. To avoid duplication, waste, and obsolescence of materials.

6. To provide materials at the lowest total cost, consistent with quality and service required.

7. To develop and maintain reliable sources of supply.

8. To achieve maximum integration with other departments.[4]

Plans, Policies, and Procedures

The plans, policies, and procedures necessary for effective hospital management establish the boundaries within which the hospital will operate and convey the philosophy of the institution. Without such guidelines, management at all levels lacks direction and is vulnerable to

inconsistent decision making.[5] A lack of written guidance may cause a lack of clarity in delineating the functions and the duties of the various members of the medical and administrative staff. This, in turn, may cause a duplication of effort and contribute to indecisiveness, frustration, and general ineffectiveness.

The process of purchasing planning must be continual and must be integrated with the overall plans of the hospital. It must consider not only the immediate and the short-range requirements but also the long-range anticipated demands.

A comprehensive, written policy by the administrator concerning the purchasing function is essential for optimum purchasing support and performance. The policy statement should be written in such a way as to minimize any misunderstanding or misinterpretation, to be applicable to the general situation, to allow for exceptions, and to be communicated to all those it will affect.[6]

The establishment of internal operating procedures for the purchasing activity is essential for effective purchasing management. The procedures must conform to the general guidelines set forth in the administrator's policy statement and should state, in specific terms, how the purchasing activity will function. A basic advantage of

written internal procedures is that they instill confidence into the personnel by delineating their duties, their responsibilities, and their authority and outline their positions within the organization. The written procedures will establish a standard of performance and a method of operation.

The establishment of well-written and well-executed plans, policies, and procedures is essential to effective purchasing. The hospital can no longer afford to allow its purchasing activities to operate in a haphazard manner. The system for purchasing supplies and equipment cannot be dependent upon second guessing, personal likes and dislikes, or character and temperament of the administrator or the purchasing officer.[7] Management must define the areas of purchasing responsibility and the methods of operation in order to obtain the maximum utilization of purchasing personnel and the purchasing dollar.

Evaluation and Standardization

The ever-increasing variety of health care products on the market today makes deciding what product to purchase difficult. Continuing to purchase new products without some form of evaluation or comparison with those items now in use will quickly create an uneconomical and an unmanageable

situation. Indiscriminate buying causes duplication, increased amount of capital invested in inventory, and, in some instances, waste.

In order to control expenses and inventory and to protect the patient, a product evaluation and standardization committee should be established. This committee should be composed of both professional and administrative personnel and should render decisions concerning the routine purchase of new products, the elimination of old products, and the standardization of products for use throughout the hospital. The purchasing officer should keep the committee informed of the new products appearing on the market and should initiate a means of evaluating the suitability of the new products for use within the hospital. This evaluation procedure should judge products against such factors as:

1. The practicality of the item.

2. The advantages and the disadvantages of the product.

3. The benefits of the new product compared to those of any similar products now in use.

4. The reaction of the patients to the new product.

5. The reactions of physicians and nurses to the new product.

6. The requirement for additional funds, facilities,

or personnel which may be required in order to use the new product.[8]

If, upon a thorough and an objective evaluation, the new product is accepted, a decision must be made about whether or not it should be standardized for use throughout the hospital and carried in the inventory. Standardizing a product and including it in the inventory will reduce the purchasing costs, since the product can be purchased less frequently and in larger quantities. Other advantages of standardization are:

1. The amount and the variety of items in the inventory can be reduced.

2. The maintenance and the utilization of equipment can be improved.

3. The procedures for requisitioning supplies and equipment can be simplified.

4. The quality of products purchased and on-hand will be more uniform.[9]

Contractual Services

In order to fulfill their mission of providing patient care, an increasing number of hospitals are turning to outside agents or contractors to supplement their own services. Contract services are very common in the areas

of housekeeping, security, dietary, and maintenance, and some hospitals are also using contractual resupply arrangements.

The use of requirements contracts, charge accounts, automatic delivery contracts, and consignment purchasing is becoming more common. These various systems have several advantages in that they reduce the number of individual, formal purchase actions required and permit consolidation of billing on one purchase order.[10]

Footnotes

[1]William Pauley, "12 Purchasing Tools," Hospital Progress, XLVIII (February, 1967), 97.

[2]Kenneth J. Scully, "Development of a Materials Management Program," Hospitals, XLII (February 15, 1968), 92.

[3]Lillian Matiska, "Purchasing Agent Offers Tips on Writing Policy," Hospitals, XL (September 16, 1966), 186.

[4]Lemar Lee, Jr., and Donald W. Dobler, Purchasing and Materials Management (New York: McGraw-Hill Book Co., 1965), p. 11.

[5]Ben Carlisle, "Developing Policy and Procedure Manuals," Hospitals, XLIII (April 16, 1969), 47.

[6]Harold Fearson, "Managing the Purchasing Function," Hospital Progress, XLIX (April, 1968), 102.

[7]Paul E. Wedman, "Authority: The Purchasing Agent Gets Only What He Earns," Hospitals, XXXIX (August 16, 1965), 86.

[8]"Evaluation Forms Help Test Products at Point of Use," Hospitals, XL (February 16, 1966), 112.

[9]William B. Finlayson, "Providing the Motives for Standardization," Hospitals, XXXV (July 1, 1961), 37.

[10]Basel L. Copeland, "Purchasing," Hospitals, XL (April 1, 1966), 148.

CHAPTER V

DISCUSSION

The information presented in this chapter is intended to provide an analysis of the current purchasing system. The alternate systems will be discussed in such a manner as to provide the administrator with a variety of possible alternatives from which to choose in the event he desires to implement any purchasing management changes.

Present Organization

The purchasing department functions under the control of the assistant administrator and is internally organized as outlined in Appendix A. The staffing of the purchasing department is comprised of a purchasing officer, a stores officer, a general clerk, a receiving clerk, a storage clerk, and a stock record clerk who is a part-time employee. The current staffing of the purchasing department is adequate to support the operational requirements of the hospital. However, additional personnel will be required to support the operational requirements placed upon the purchasing department when the hospital expands to 500 beds. The present plans indicate the hiring of two or three

additional personnel during the next two years. The additional personnel will enable the purchasing department to support future requirements.

Duties and responsibilities

The purchasing department is responsible for the purchase, the receipt, the storage, and the issue of the following categories of supplies, equipment, and services:

1. Automobile and truck maintenance.
2. Books and journals (medical and administrative).
3. Dues and subscriptions.
4. Equipment rental (duplicating and office machines).
5. Food service supplies and equipment (excluding subsistence items).
6. Laundry supplies.
7. Linen and bedding.
8. Medical and surgical supplies, instruments, and equipment.
9. Office supplies and equipment.
10. Outside services (grounds and parking facilities).
11. Print shop operations.
12. Repairs and maintenance (buildings and equipment).
13. Service contracts (physical security).

14. Solutions (pharmacy and CMS).

15. Special supplies.

16. Travel.

17. Uniforms (staff personnel).

The purchasing officer is responsible for the operation and the control of the purchasing department, the initiation of purchase orders and contracts, and the execution of those additional administrative functions necessary for the efficient purchasing and supply support of the hospital.

The stores officer is responsible for the operation of the storeroom, including receipt, storage, and maintenance of stock records and issue to requisitioners. The stores officer receives his guidance and his supervision directly from the purchasing officer.

The general clerk performs the functions of a secretary to the purchasing officer and operates the printing section. She accomplishes all typing, filing, and other clerical activities required but does not participate in any direct purchasing functions. Requirements for printed materials are received from the purchasing or the stores officer.

The receiving clerk functions in the stores area under the direct control and supervision of the stores officer. His primary duties consist of checking and verifying

all of the incoming shipments against the receiving report to insure that the proper quantity and quality of the items ordered are received. He also assists the storage clerk when possible.

The storage clerk functions in the stores area under the control of the stores officer. His duties consist of stocking the shelves, pulling the stock to fill the requisitions, and delivering the supplies to the various wards and departments.

The stock record clerk functions in the stores office and posts issues and receipts of items to the applicable stock record cards. This individual is a part-time employee and works approximately four hours per day.

Purchasing department storage space

Current planning guidance indicates that storage space should be allocated on the basis of from 200 to 250 cubic feet per bed.[1] Figures furnished by the stores officer indicate that a total of 76,180 cubic feet of storage space is now available in the stores area. This space is adequate to support the current 350-bed capacity of the hospital. However, when the hospital expands to 500 beds, additional storage space will be required. The administrator has stated that, in order to support the increased bed

capacity of the hospital, plans have been made to increase the storage space by approximately 60 per cent. Table 1 illustrates the present and the future storage space requirements.

TABLE 1

STORAGE SPACE REQUIREMENTS

Bed Capacity	Minimum (200 Cu. Ft./Bed)	Maximum (250 Cu. Ft./Bed)	Available (Cu. Ft.)
350	70,000	87,500	76,180
500	100,000	125,000	121,880

SOURCE: W. McFarland, private interview held at Presbyterian Hospital, Dallas, Texas, May 6, 1969.

The storage space now, and in the future, will be adequate to support the needs of the hospital. Adequate office and administrative space is available, and no further expansion of these facilities should be required. An adequate traffic pattern is in effect, and adequate receiving facilities are available to permit the delivery of all items directly to the receiving area.

Purchasing operations

The discussion of the purchasing operations will center around the following areas: (1) the purchasing system, (2) the purchase order costs, (3) the purchasing workload, and (4) the exempt departments.

In order to have a standard by which to evaluate and analyze the operation of the purchasing department, an operational checklist was developed. This checklist, as outlined in Appendix B, is based upon a compilation of those guidelines established by the American Hospital Association (see Appendix C) and the criteria established by various authorities in the areas of industrial and hospital purchasing.[2] Through the use of this checklist, a comparison of the purchasing system at the Presbyterian Hospital in relation to current standards and practices is possible. A secondary benefit is derived in that those practices which do not conform to the accepted standards can be identified.

Purchasing system

The present purchasing system is based upon the concept of a centralized system and is organized and operated according to this premise. However, due to a lack of written policies and procedures, not all departments adhere to the centralized concept.

The current operating methods require that all activities, except the pharmacy department, the dietary department, and the gift shop, submit all requests for supplies and services to the purchasing officer for action. The requests may be submitted on either the long or the short

stores requisition form, depending upon the number of items requested. Copies of these forms are illustrated in Appendix D. These forms are used for internal purposes only. All orders to vendors are placed on the standard purchase order form, a copy of which is included in Appendix E.

The requisitioning system now in effect is illustrated in Figure 1 and consists of the following phases:

1. The requesting department submits a stores requisition to the purchase office.

2. The stores officer receives the requisition and determines if the items are stocked or nonstocked.

3. If the items are stocked, the requisition is forwarded to the storage clerk, who selects the appropriate items and delivers them to the requisitioner.

4. If the item is nonstocked, the requisition is forwarded to the purchasing officer, who takes the following actions:

   a. A vendor is selected.

   b. A purchase order is initiated and sent to the vendor.

   c. The vendor ships the items to the stores receiving section.

   d. The items are verified against the receiving report.

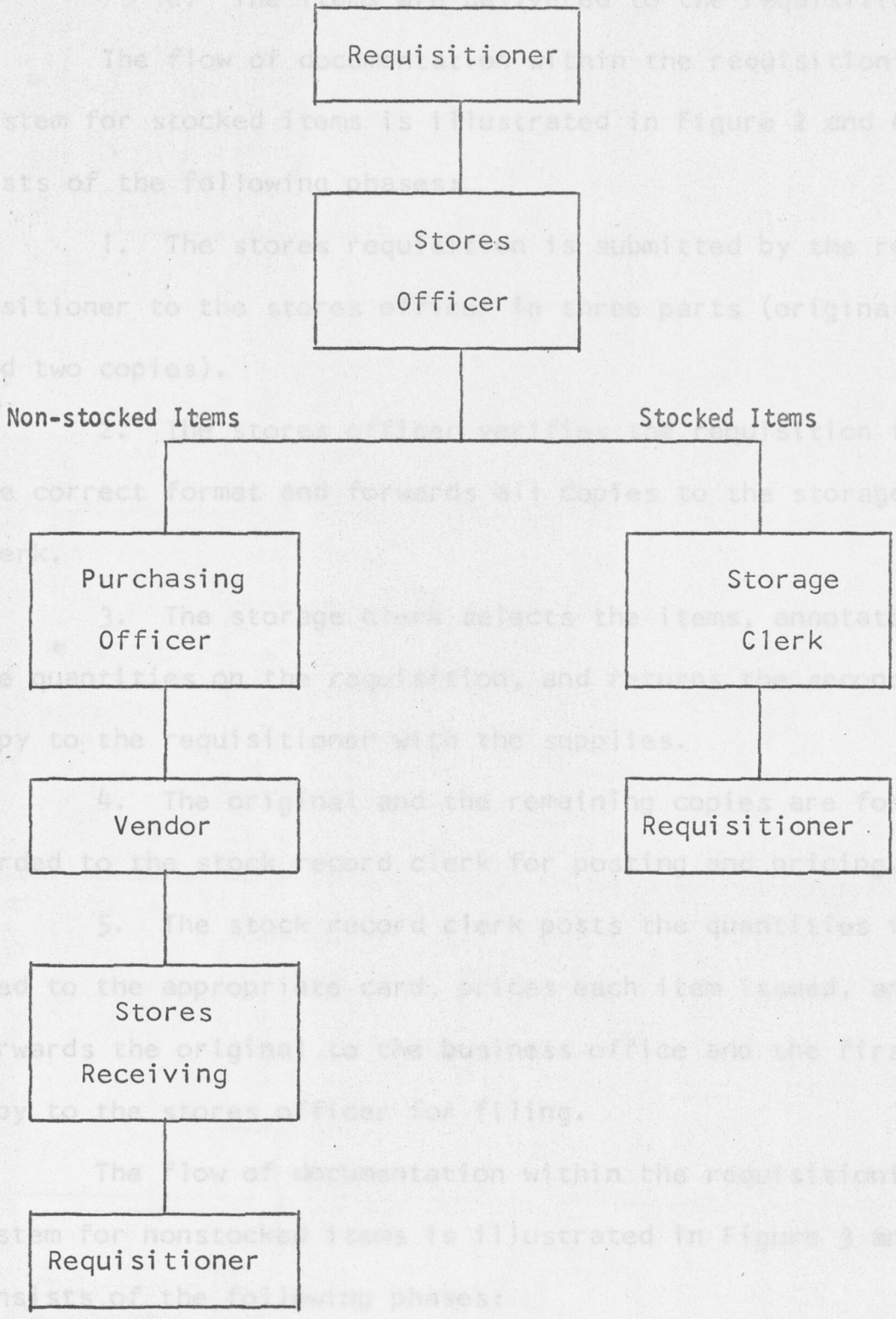


Fig. 1.--Present requisitioning and purchasing procedures

e. The items are delivered to the requisitioner.

The flow of documentation within the requisitioning system for stocked items is illustrated in Figure 2 and consists of the following phases:

1. The stores requisition is submitted by the requisitioner to the stores officer in three parts (original and two copies).

2. The stores officer verifies the requisition for the correct format and forwards all copies to the storage clerk.

3. The storage clerk selects the items, annotates the quantities on the requisition, and returns the second copy to the requisitioner with the supplies.

4. The original and the remaining copies are forwarded to the stock record clerk for posting and pricing.

5. The stock record clerk posts the quantities issued to the appropriate card, prices each item issued, and forwards the original to the business office and the first copy to the stores officer for filing.

The flow of documentation within the requisitioning system for nonstocked items is illustrated in Figure 3 and consists of the following phases:

1. The requisitioner submits the stores requisition to the stores officer in three parts (original and two

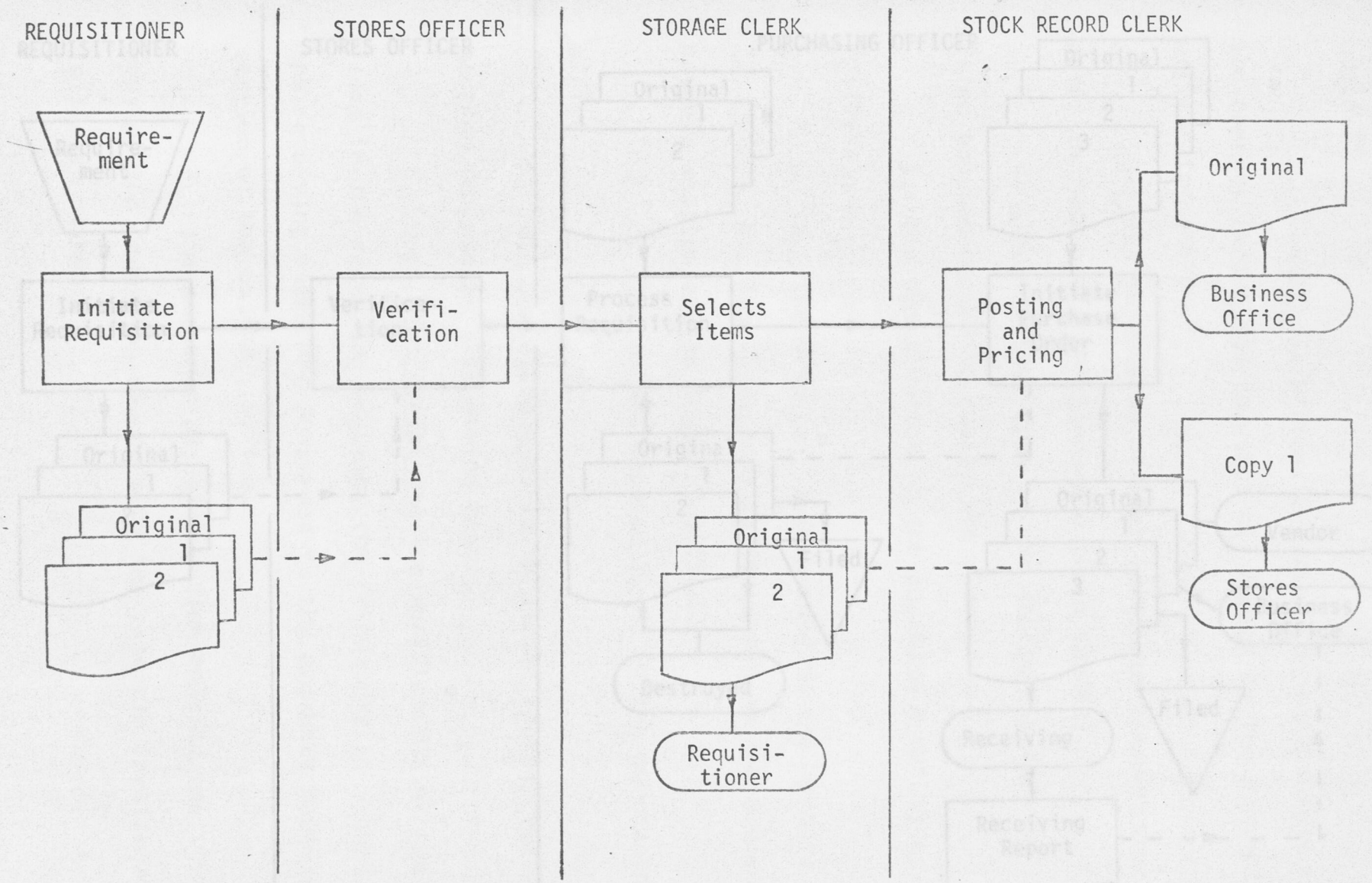


Fig. 2.--Present document flow, stocked items

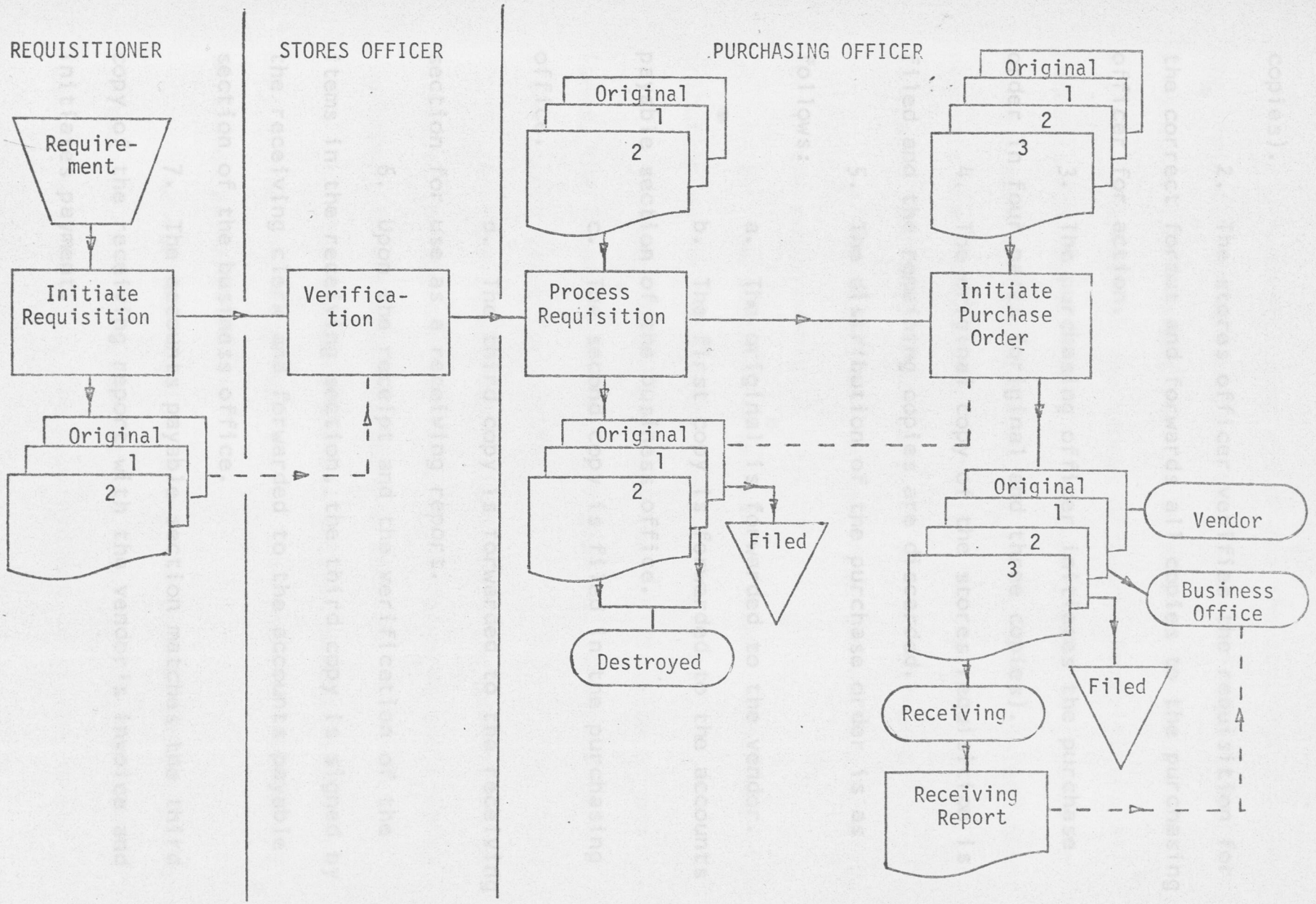


Fig. 3.--Present document flow, nonstocked items

copies).

2. The stores officer verifies the requisition for the correct format and forwards all copies to the purchasing officer for action.

3. The purchasing officer initiates the purchase order in four parts (original and three copies).

4. The original copy of the stores requisition is filed and the remaining copies are discarded.

5. The distribution of the purchase order is as follows:

a. The original is forwarded to the vendor.

b. The first copy is forwarded to the accounts payable section of the business office.

c. The second copy is filed in the purchasing office.

d. The third copy is forwarded to the receiving section for use as a receiving report.

6. Upon the receipt and the verification of the items in the receiving section, the third copy is signed by the receiving clerk and forwarded to the accounts payable section of the business office.

7. The accounts payable section matches the third copy of the receiving report with the vendor's invoice and initiates payment.

The requisitioning system and the document flow for the replenishment of stocked items are similar to that for nonstocked items except for the absence of a stores requisition. Inasmuch as the stores officer, who initiates all requests for replenishment of stocked items, is located in close proximity to the purchasing officer, all replenishment requests are communicated verbally. This procedure is illustrated in Figure 4 and consists of the following:

1. The stores officer notifies the purchasing officer of the requirements.

2. The purchase order is initiated. (The same distribution as for nonstocked items is employed.)

3. Upon the receipt and the verification of the items, the receiving report is signed and forwarded to the stock record clerk for posting.

4. The stock record clerk posts the quantities received to the appropriate records and forwards the receiving report to the accounts payable section.

5. The accounts payable section matches the third copy of the receiving report with the vendor's invoice and initiates payment.

The various requisitioning and document distribution systems now in effect support the hospital requirements in that the desired items are obtained and delivered to the

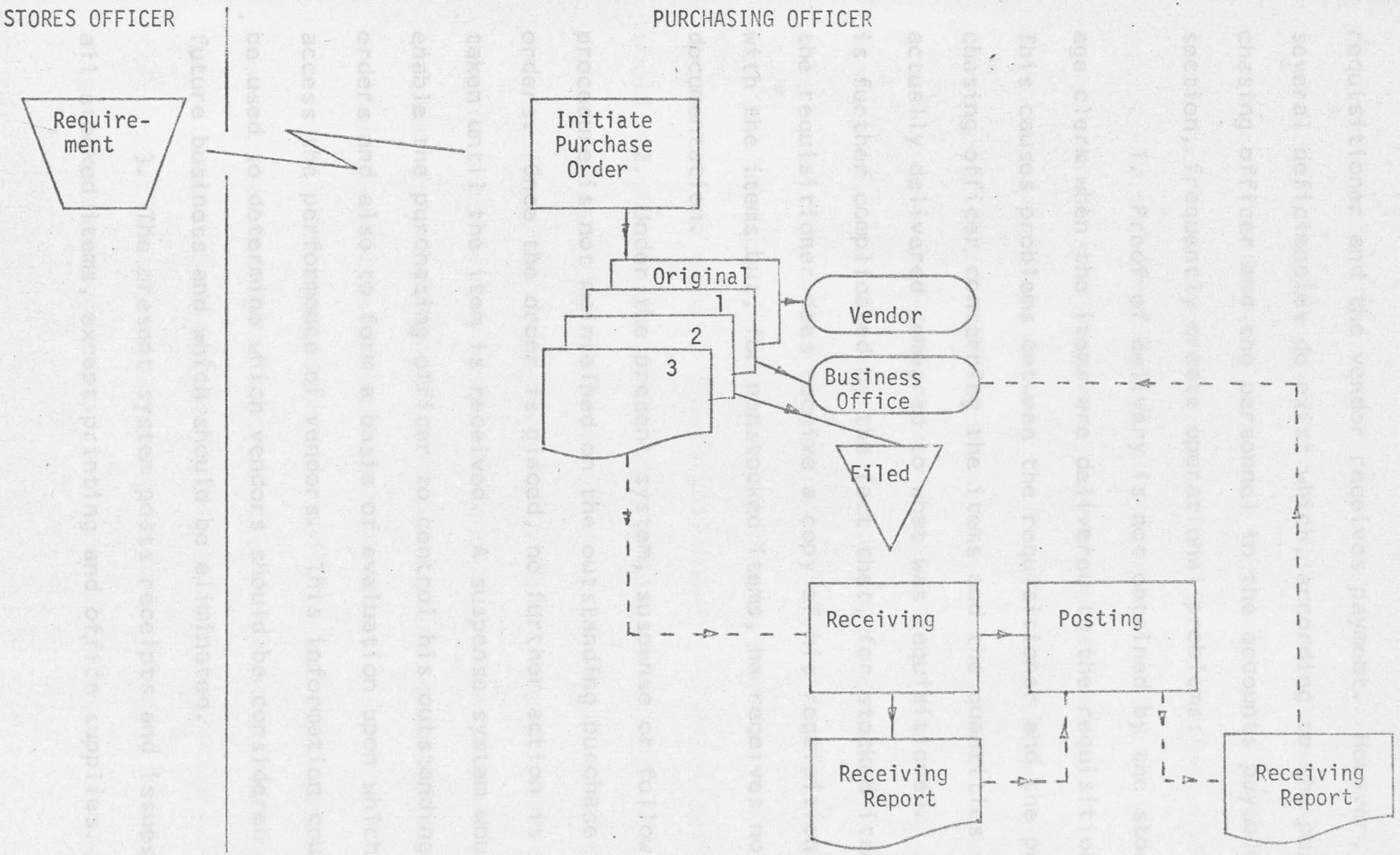


Fig. 4.--Present document flow, replenishment of stocked items

requisitioner and the vendor receives payment. However, several deficiencies do exist which, according to the purchasing officer and the personnel in the accounts payable section, frequently create operational problems:

1. Proof of delivery is not obtained by the storage clerk when the items are delivered to the requisitioner. This causes problems between the requisitioner and the purchasing officer concerning the items and the quantities actually delivered compared to what was requisitioned. This is further complicated by the fact that, for stocked items, the requisitioner does receive a copy of his requisition with the items but, for nonstocked items, he receives no documentation.

2. Under the present system, suspense or follow-up procedure is not maintained on the outstanding purchase orders. Once the order is placed, no further action is taken until the item is received. A suspense system would enable the purchasing officer to control his outstanding orders and also to form a basis of evaluation upon which to access the performance of vendors. This information could be used to determine which vendors should be considered for future business and which should be eliminated.

3. The present system posts receipts and issues of all stocked items, except printing and office supplies. The

failure to post all demands, including those for nonstocked items, makes it very difficult to determine the demand rate for all the items being purchased and, consequently, what items should be classified as stocked or nonstocked. The posting of all demands and the periodical review of these demands would enable a more accurate determination to be made as to what items should be added to or deleted from the inventory. Based upon accurate, comprehensive demand data, stockage levels could be established. Under the present system, stock levels are not maintained on any items. The purchasing officer and the stores officer feel that, due to the lack of stock levels, over- and understockage of inventory items may occur. The establishment of stock levels would not only align the inventory with actual hospital requirements but also would permit the implementation of more systematic purchasing techniques. Based upon accurate demand data concerning what items should or should not be stocked, consolidated purchasing procedures and modified purchasing techniques could be employed.

4. The lack of written policies and procedures concerning internal operation, relations with other hospital activities, and the purchasing office's place in the hospital organization is causing significant problems. Through an oral agreement or mutual understanding, the purchasing

officer is responsible for the operation of a centralized purchasing activity. However, he does not have the authority necessary to insure that the various activities within the hospital adhere to this concept. The lack of a written policy creates confusion within the purchasing activity and among the various hospital activities. Several of the more significant problems are:

a. In addition to requiring professional personnel to spend time on administrative functions rather than on patient care, decentralized purchasing creates a problem of unmatched documents and unauthorized purchases. The system now in effect requires that all items purchased by the purchasing officer be delivered to the receiving section in the stores warehouse. The various receiving and delivery procedures have previously been discussed. However, when an order is placed by someone other than the purchasing officer, no purchase order or receiving report is created. If the item is delivered to the receiving section, an inquiry has to be made with the various hospital departments in order to determine who ordered the item. Once this is determined, the proper documents are created and the standard receiving system is followed. If, as in many instances, the item is delivered directly to the ordering activity, no documentation is created, and neither the business office

nor the purchasing officer knows of the item until the vendor submits his invoice to the business office for payment. The business office and the purchasing officer must then attempt to find out who ordered the item and, if it has been received, create the proper documentation to initiate the proper receipt and payment procedures. A survey conducted over a two-week period by the purchasing officer and two accounts payable clerks indicated that approximately 15 per cent of their time was spent resolving various problems caused by unauthorized purchases by hospital personnel.[3]

b. There is an excessive time lag between the receipt and the verification of an item in the receiving section and the forwarding of the receiving report to the business office. Personnel in the stores section have a tendency to hold the completed receiving report until a large number is accumulated. This procedure sometimes causes a five to seven-day lag, during which invoices may be received and time discounts lost due to the lack of receiving reports in the business office. It also creates much telephoning between the business and the purchasing offices concerning the receipt of and the payment for supplies and equipment.

c. The purchasing performance data are not kept and, consequently, performance reports are not furnished to

the administrator. Consolidated data are not available concerning purchasing performance or workload, and this makes it extremely difficult for the purchasing officer to plan future activities and requirements. In order to obtain information concerning the volume of purchases, dollar value, or workload, several financial and administrative reports must be reviewed.

d. The guidance has not been clarified concerning the hospital's buying policies. The accepted procedure is to obtain prices for equipment through competitive bids, either orally or in writing, with the items being purchased from the vendor who offers the lowest price, all other factors being equal.[4] However, no definite policy has been established concerning the purchase of personal items for hospital personnel, whether preference should be given to local vendors in the awarding of contracts or to what standards of conduct and purchasing ethics purchasing personnel are expected to adhere. The administrator approves all purchases of equipment, regardless of dollar value. Supplies and services are purchased as necessary and do not require administrative approval. Some use is made of resupply contracts, but the majority of resupply actions are done with individual purchase orders.

e. Due to the lack of written policies, a

minimal amount of information is transmitted between the purchasing officer and the various hospital activities. This lack of communication prevents the purchasing officer from providing total support to the hospital. It also prevents hospital personnel from benefiting from the purchasing officer's knowledge of new products, market conditions, sources of supply, and standardization.

Purchase order costs

Using the figures furnished by the purchasing officer, a cost analysis was conducted concerning the cost of processing a purchase order. All personnel time and salary figures are approximations by the purchasing and the personnel officers; therefore, only an approximate cost was calculable.[5] The figures were compiled from the time the requisition reaches the stores officer until the time the items are delivered to the requisitioner. Only the costs of personnel and forms were calculated; overhead or equipment depreciation costs were not included, since these costs are constant and would be present regardless of a purchase order being written.

Table 2, Purchase Order Processing Costs, indicates the individual time frames, the consolidated personnel cost, and the cost of forms required to process a purchase order.

The disclosure of specific individual salary costs was not deemed necessary; therefore, only the total personnel costs are listed. Nearly all price and vendor selections for purchase orders are accomplished telephonically; therefore, the selection of vendor and price time frame was based upon a telephonic, not written, selection process.

TABLE 2

PURCHASE ORDER PROCESSING COSTS

Action Individual	Action Taken	Time Required	Cost
Stores Officer	Verification	5 min.	
Purchasing Officer	Select vendor and price	15 min. (a)	
Secretary	Typing	10 min.	
Receiving Clerk	Receipt verification	30 min.	
Stock Record Clerk	Posting and pricing	25 min.	
Storage Clerk	Delivery	45 min.	
		130 min.	$4.48
			.04 (b)
			.07 (c)
TOTAL			$4.59

(a) Telephonic time.
(b) Stores requisition.
(c) Purchase order.

SOURCE: Mary Yates and Warren Garfield, private interviews held at Presbyterian Hospital, Dallas, Texas, May 5, 1969.

Purchasing workload

Figures furnished by the purchasing officer concerning the number of purchase orders written over the past three years are shown in Table 3.

TABLE 3

PURCHASE ORDERS WRITTEN PER YEAR

Period	Total
February, 1966-March, 1967	2,502
April, 1967-March, 1968	6,397
April, 1968-March, 1969	6,621

SOURCE: Purchase Order Register, Presbyterian Hospital, Dallas, Texas.

Through a review of the financial and administrative records for 1967 and 1968, data were assembled concerning the total value of monthly purchases and the total value of those purchases made by the purchasing officer. This information, contained in Appendix F, Monthly Value of Purchases, illustrates the upward trend in purchasing activity. The difference between total purchases and purchases made by the purchasing officer is accounted for by the purchases of the pharmacy department, the dietary department, and the gift shop.

A comparison of the patient census and the purchasing activity is illustrated in Appendix G, Patient Census--Procurement Volume. As patient census increases, purchasing workload increases; and, by the application of a Least Squares Trend Line, the purchasing volume for a patient census of 500 can be estimated at approximately $190,000 per month as compared to $130,000 per month at the present census of 350. Even though further statistical refinements are

required of the data before a major management decision can be made, the information does indicate what may be ahead in the volume of purchases as the hospital expands.

Exempt departments

Due to their specialized characteristics, the administrator has exempted the pharmacy department, the dietary department, and the gift shop activities from the hospital purchasing function.

The proponents of this practice base their action upon the premise that, due to the special characteristics of the items involved, only a person specifically trained in their use is capable of purchasing them in an acceptable manner. The opponents of this practice express the thought that pharmacists and dietitians are not adequately trained in purchasing procedures and, therefore, are not able to execute effective and economical purchasing actions.[6] This argument is reinforced by the fact that a capable purchasing officer or materials manager is able to purchase intelligently medical and surgical supplies, instruments, and other equipment and, therefore, should be able to purchase pharmacy and dietary supplies in an acceptable fashion.

Interviews with the directors of these activities were conducted to determine the extent of their involvement

in purchasing.[7] Purchasing for the gift shop was accomplished by the director of volunteer services. Due to the voluntary nature of this operation and its very small purchasing volume, the purchasing responsibilities could be integrated within the hospital purchasing function.

The director of the pharmacy department devotes one to two hours per day to purchasing, receiving, and inventory maintenance. Monthly expenditures were estimated at $20,000 and total inventory value at $42,000. No significant problems or procedures are evident in the purchase of the various drugs and related items now in use within the hospital, and the responsibility for purchasing these items could be transferred to the hospital purchasing activity. Adequate personnel and adequate storage space are available within the purchasing and stores area to accept the additional workload. This change would permit better utilization of pharmacy personnel by eliminating the requirement for them to devote time to purchasing and would permit additional space for pharmacy operations by eliminating the space now required for bulk storage of items. The pharmacist would not lose control or influence as to what products are to be purchased, or from whom, since he would continue to determine his requirements. The only concession would be to relieve himself of the actual purchasing function and its

related administrative and storage responsibilities.

The director of the dietary department indicated that four to five hours per day were devoted to the purchase of subsistence items. The other food service items, such as silverware, hardware, cookware, and equipment, were purchased through the hospital purchasing office. The monthly value of subsistence procurement was approximately $35,000. The special requirements for subsistence items (dietary variations, seasonal availability of various food stuffs, erratic market and price fluctuations, special storage facilities, and daily resupply requirements) are significant factors in favor of maintaining the present system. An adequate dietary staff is available within the activity to carry out the purchasing function. The organization and the physical modifications required to place this operation under the hospital purchasing function would not be commensurate with the financial or the managerial gains derived.

Alternatives

Maintain present system

A basic decision must be made whether to continue with the present system or to initiate changes. Maintaining the present system has a major advantage in that no operational or managerial changes would be required to

continue it. However, the same problems and disadvantages which were examined in the discussion of the current system would continue to plague the administrator and the purchasing officer.

Modify present system

A decision to change the present system can be based upon several alternatives, one of which is to modify its organizational and its operational structure. Actions in three basic areas would eliminate the problems of the present system:

1. The implementation of written administrative policies and purchasing procedures, including those areas outlined in Appendix B.

2. The consolidation of all purchasing activities, except dietary, under the hospital purchasing officer.

3. The modification of the document flow as outlined in Appendix H.

The advantages derived from a decision of this nature would be as follows:

1. The minimum disruption of current operating methods.

2. The maximum conformance to established standards of purchasing management, performance, and organization.

3. The elimination of current problems.

4. The nonrequirement for additional personnel or storage facilities.

5. The maximum utilization of the purchasing and the professional personnel in their primary areas of proficiency.

6. The minimum retraining of purchasing and hospital personnel in new policies and procedures.

7. A better control of the quality, the quantity, and the variety of items purchased.

8. The elimination of purchasing by untrained personnel.

9. The elimination of unauthorized purchases.

10. A reduction in the number of unmatched documents.

11. A more efficient method of inventory control and maintenance.

12. An increase in the standardization of supplies and equipment.

A lack of total centralization of the purchasing activity is the major disadvantage of modifying the present system. Other factors which may be considered disadvantages are:

1. The additional administrative operations resulting from implementation of the written procedures.

2. The required enforcement and periodic reviews resulting from the written procedures and policies.

Decentralized system

Even though it is not the most prevalent system in use, a completely decentralized purchasing system could be considered. Several arguments for this type of system are: (1) People feel that they must talk with salesmen in order to keep up to date on the products they use and that purchasing of their particular items requires some degree of special skills or knowledge and (2) some individuals feel that the purchasing officer will purchase items based only upon price rather than upon overall quality and suitability.[8]

The advantages of a decentralized system are:

1. The department chiefs totally control the purchasing of supplies and equipment for their departments.

2. The requirement for a large bulk storage area is eliminated.

3. The personnel costs of operating a consolidated purchasing activity are eliminated.

4. The direct and the indirect costs of operating a consolidated purchasing activity are eliminated.

A decentralized purchasing activity requires professional and administrative staff members to devote a

considerable amount of their time to purchasing rather than to professional or other administrative functions. In addition to the time lost from direct patient care, the professional department head must make provision for the storage of the supplies he orders. This may require converting patient treatment areas into storage areas.

Several other disadvantages of decentralized purchasing are:

1. A dependence upon salesmen to provide guidance on cost, quality, quantity, disposition, return, and payment for items is created.

2. The haphazard purchasing practices and systems used create a duplication of effort.

3. The purchasing and supply costs increase because of the large number of individual orders executed for relatively small quantities.

4. The vendors may raise their costs because of the many individual, small orders they receive from the same institution which have to be processed and shipped separately.

5. A means of inventory control, responsibility determination, cost determination, or quality control is not provided by decentralized purchasing.

6. The vendors consider an organization operating with a decentralized purchasing activity as being poorly

managed and, in some instances, will not honor the many small, individual, duplicate orders received from that institution.[9]

A decentralized purchasing system must be judged against the overall objectives and aims of management. Careful consideration must be given to the total cost, the personnel requirements, and the materials requirements of the institution before deciding upon a decentralized system.

Group purchasing

The group purchasing organization has become more popular during the past several years. The primary objective of a group purchasing system is to create price savings which would not normally be available through purchases by the individual hospitals. Group purchasing is a mechanism which permits a number of individual hospitals to unite in order to secure greater purchasing and bargaining power with vendors over a group of selected items. Group purchasing usually concentrates upon the large volume items for which common quality and quantity standards can be agreed upon and which are supplied by a variety of vendors.

One reason for the shift in some areas to group purchasing is the development of Medicare and other third-party payment plans, which are forcing hospitals to identify and

cut their material costs wherever possible and to make maximum use of their purchasing assets. Advantages available to the hospital associated with group purchasing are:

1. The more competitive prices from vendors.
2. The larger quantity discounts.
3. The direct factory purchases.
4. The reduction in the number of purchasing personnel.
5. The reduction in purchasing administrative costs.
5. The more comprehensive product evaluation.[10]

The administrator must keep in mind that it is unlikely that he will be able to procure all his requirements through a group. He will have to maintain his purchasing office, on a reduced scale, in order to procure those items not available through a group.

Group purchasing does present some problems and some disadvantages. Questions have arisen concerning the legality of marketing and purchasing items which fail to meet the fair trade regulations and the possibility that quality standards might be reduced by the use of more economical products. Other disadvantages are:

1. The individual administrator loses control over the purchasing function.
2. The location of the group purchasing office and

warehouse may cause communication and transportation problems.

3. Some vendors may not be willing to sell to a group.

4. Some purchasing and stores personnel may have to be dehired.

5. The group purchasing system may become insensitive to the special needs of the hospital.

6. The hospital's purchasing personnel may be reduced to the role of being order takers rather than material managers or advisors.[11]

The Presbyterian Hospital, located in a major metropolitan area and in a close proximity to several other large hospitals, may find a group purchasing agreement to be beneficial. The adequacy of supply outlets, the number of possible participants, and the possible savings in material costs, in manpower, and in space requirements are significant factors which must be considered when evaluating a group purchasing agreement.

Centralized system

The implementation of a totally centralized purchasing system, reinforced by written guidance from the administrator and the purchasing officer, would offer the

following advantages as compared with those systems previously discussed:

1. The total consolidation of the purchasing function.

2. The more efficient use of administrative and professional personnel.

3. The better control of the quality, the quantity, and the variety of items purchased.

4. The elimination of duplicate effort and haphazard purchasing.

5. The elimination of unauthorized purchases.

6. The reduction in unmatched documents.

7. The reduction in transportation and vendor costs by consolidation of shipments.

8. The control of purchasing by trained purchasing personnel.

9. The more efficient control and maintenance of the inventory.

10. The permanent establishment of the purchasing responsibility and authority with one person or department.

11. The reduction of duplicate records and orders.

12. The accumulation of accurate material cost figures.

13. The improvement of vendor relations.

14. The increased standardization of supplies and equipment.

The total centralization of the purchasing activity would have the following disadvantages:

1. The possibility of inadequately trained purchasing personnel to assume total procurement responsibility.

2. The requirement for additional space and personnel.

3. The requirement for written, formal procedures and policies.

4. The inability of the department heads to control the purchasing methods used for the items they desire.

5. The possibility that a totally centralized system may become insensitive to the demands of a particular department.

Total centralization, theoretically the most efficient system, may not be the best system for every hospital. The purchasing system must be based not only upon the hospital's material requirements but also upon a recognition of the hospital's physical, financial, and personnel limitations. The practical limitations, as well as the theoretical advantages, must be carefully considered before a final system is adopted.

Summary

The increased capacity and operations of the Presbyterian Hospital have increased the workload, the duties, and the responsibilities of the purchasing department. Adequate staffing and adequate storage facilities are available to support current operational requirements, and plans have been made to expand the purchasing department in order to support future requirements.

The present purchasing system is supporting the operational requirements of the hospital. However, due to a lack of written guidance, significant managerial and operational difficulties have developed concerning the hospital's purchasing function. Unauthorized purchases by individual departments have created problems concerning the receipt and the verification of items and the payment of vendor invoices. The lack of performance data has made it difficult to determine the total purchasing workload and efficiency. Problems relating to communications between the purchasing office and other department chiefs have also developed. The lack of stock levels has made it difficult to determine the proper inventory of various items to have on-hand, and on order, in order adequately to support the hospital's requirements. This, in turn, may cause over- and understockage of some items within the inventory.

The following alternative systems may enable the purchasing department to function in a more efficient and a more economical manner:

1. A modification of the present system.--The creation of written policies and procedural guidance; the consolidation of all purchasing functions, except dietary, under the purchasing officer; and the modification of the present purchasing cycle have the advantage of eliminating the current problems and causing a minimal disruption of the present operational routine. The primary disadvantage with this action is that a totally centralized purchasing function would not be created.

2. A totally decentralized purchasing system.--Under this system, each department head would be totally responsible for purchasing the items required for the operation of his department. This would have the advantage of permitting each department head to control the purchasing of items for his department and to insure that he would obtain the exact quantity, type, brand, and quality of item he desires. The primary disadvantage of this type system is that professional and administrative personnel must devote a considerable portion of their time to purchasing rather than to their primary duties. A significant duplication of effort is also created through purchasing by many individuals.

3. A group purchasing system.--The concept of a number of hospitals consolidating their purchasing function in order to secure greater purchasing and bargaining power with vendors is gaining in popularity. This system has the advantage that individual hospitals receive supplies at a lower cost through the larger buying power of the group. The disadvantages of this system are that group purchases are not possible for the total material requirements of the hospital and the group may become so large as to be insensitive to the specific demands of the individual hospitals.

4. A totally centralized purchasing system.--This system provides for the total consolidation of the purchasing function under the purchasing officer. It has the advantages of relieving all other personnel of purchasing duties and responsibilities and of providing maximum control of the purchasing function by personnel trained in purchasing methods and techniques. The disadvantages include the requirements that all personnel be adequately trained in all areas of procurement and that adequate storage and administrative space to operate the centralized operation be available.

Footnotes

[1]Gerald Oudens, "An Architect's Views: Centralized Distribution System a Must," Hospitals, XLIII (February 1, 1969), 47.

[2]"Guidelines for Centralized Purchasing," Hospitals, XLI (March 16, 1967), 110; Fearson, "Managing the Purchasing Function," p. 76; Paul R. Wozeak, "Can We Measure Purchasing Performance?," Hospital Management, XCVIII (December, 1964), 88; Lee and Dobler, Purchasing and Materials Management, p. 7.

[3]Leonette Burgess, Helen Floor, and Mary Yates, survey conducted at Presbyterial Hospital, Dallas, Texas, February 27 to March 14, 1969.

[4]William Haire, private interview held at Presbyterian Hospital, Dallas, Texas, February 24, 1969.

[5]Figures based on data furnished by Warren Garfield and Mary Yates, Presbyterian Hospital, Dallas, Texas, May 5, 1969.

[6]Joseph H. Leydon, "Too Many Cooks Make a Stew of Buying," Modern Hospital, CVI (May, 1966), 36.

[7]Harold McKay, private interview held at Presbyterian Hospital, Dallas, Texas, April 30, 1969; Doris Wilson, private interview held at Presbyterian Hospital, Dallas, Texas, May 1, 1969; Pat Harris, private interview held at Presbyterian Hospital, Dallas, Texas, May 2, 1969.

[8]Leydon, "Too Many Cooks Make a Stew of Buying," p. 36.

[9]Ibid., p. 37; William Pauley, "The Case for Centralized Materials Management," Hospitals, XLI (August 16, 1967), 76.

[10]A. Sjolander and R. Morgan, "Materials Management," Hospitals, XLII (April 1, 1968), 100; Stephen L. Ummell, "A Study of the Relationship and Applicability of Group Purchasing to the Voluntary Hospital System" (unpublished Master's thesis, State University of Iowa, Iowa City, Iowa, 1965), p. 71.

[11]Sjolander and Morgan, "Materials Management," p. 100.

CHAPTER VI

CONCLUSION AND RECOMMENDATIONS

Conclusion

The best system for controlling the requisitioning, purchasing, and receiving of and the payment for supplies at the Presbyterian Hospital, Dallas, Texas, would be obtained by publishing written purchasing policies and procedures and by modifying the document flow within the requisitioning and the purchasing systems.

Recommendations

The following actions should be initiated to implement the above conclusion:

1. The publication of written purchasing policies by the administrator, incorporating the applicable areas outlined in Appendix B.

2. The issuance of written purchasing procedures by the purchasing officer, incorporating the applicable procedural areas outlined in Appendix B.

3. The modification of the document flow within the requisitioning and the purchasing systems, as outlined in Appendix H.

4. The additional study of the following areas:

a. The determination of the processing time frames for documentation within the purchasing department and between the purchasing department and the business office.

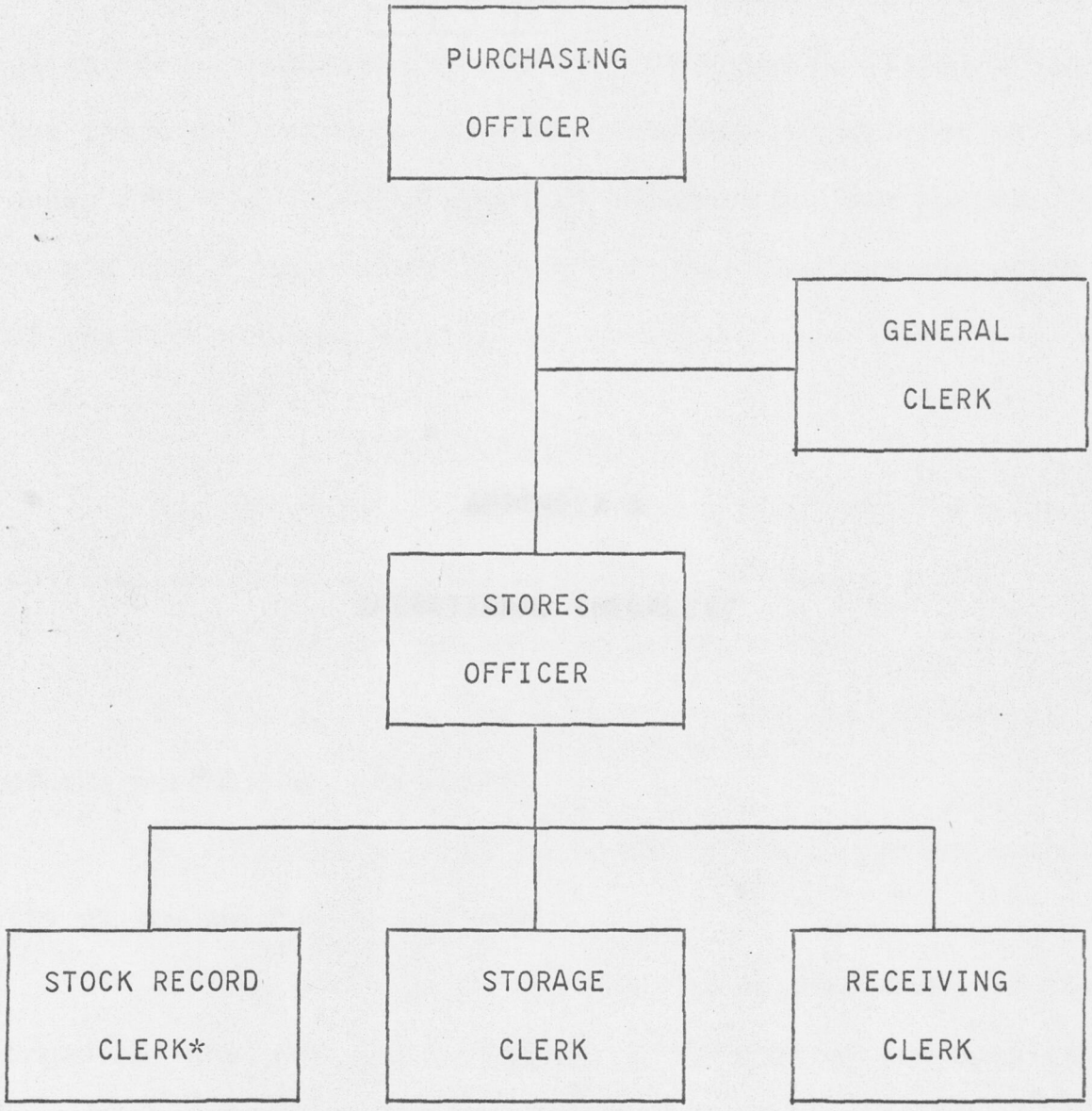
b. The validity of demand data and the computation of stock levels.

c. The determination of economic order quantities, based upon demand data and stock levels.

APPENDIX A

PURCHASING DEPARTMENT ORGANIZATIONAL CHART

PURCHASING DEPARTMENT ORGANIZATIONAL CHART



*PART-TIME

APPENDIX B

OPERATIONAL CHECKLIST

OPERATIONAL CHECKLIST[1]

This checklist is based upon a compilation of those guidelines established by the American Hospital Association and those criteria established by various authorities in the areas of industrial and hospital purchasing. Its purpose is to aid the writer in evaluating and analyzing the operation of the Presbyterian Hospital's purchasing department.

Administrative Policy

Has the hospital administrator established written policies and procedures concerning the following areas:

1. The organizational structure?
2. The mission, the functions, and the objectives of the purchasing department?
3. The duties, the responsibilities, and the authority of the purchasing officer?
4. The position of the purchasing department in the organizational and the management structures of the hospital?
5. The relationship of the purchasing activity with other hospital departments?
6. The general guidelines for purchasing?
7. The performance reports and the statistical workload data required?

8. The evaluation and the standardization of products?

9. The ethics of purchasing?

10. The endorsement of products by the hospital?

11. The basis of source determination?

12. The hospital's relationships with vendors?

13. The criteria for inventory management?

14. The purchase of personal items for staff members and hospital employees?

15. The disposal of excess or salvaged property?

16. The items requiring special approval prior to purchase?

17. The emergency purchase and requisition of items?

18. The appraisal of the performance of employees?

19. The settlement of grievances?

20. The personnel authorized to requisition supplies?

21. The lines of authority and communication?

22. The duties and responsibilities of each individual in the form of a job description?

23. The time frames for processing requisitions, purchase orders, item receipts, and receiving reports?

24. The performance standards for all sections?

25. The economy of supplies?

26. The physical layout of the department?

27. The maintenance of the inventory, including the formula for calculating supply levels and the inventory review period?

28. The control and the follow-up actions on requisitions, purchase orders, and correspondence?

29. The required files, records, and registers?

30. The storage methods and the criteria for general and special items?

31. The relationship with the business office concerning payment and verification procedures?

Operational Techniques

Are the following operational methods, techniques, or controls utilized within the purchasing operation and in what manner:

1. The delineation between large and small purchases?

2. The use of competitive bidding for all purchases?

3. The compilation of administrative costs of processing a purchase order and a requisition?

4. The use of charge accounts, blanket purchase agreements, or other forms of consolidated purchasing methods?

5. The determination of total item cost?

6. The maintenance of a daily purchase log or register?

7. The maintenance of a vendors' list by product or service?

8. The compilation of performance and workload statistical data?

9. The evaluation of new products?

10. The distribution of work to employees?

11. The use of a suspense or follow-up system?

12. The confirmation of telephone orders?

13. The maintenance of a stock locator file?

14. The maintenance of stock record cards?

15. The maintenance of stock levels?

16. The maintenance of work levels?

17. The use of a standardization committee for new products?

18. The maintenance of a catalog of stocked items?

19. The use of change orders?

20. A system of property disposal?

21. The accounting for capital equipment?

22. The establishment of property records and property accountability?

23. The involvement of the purchasing officer in management planning?

24. The accountability for lost, damaged, or destroyed property?

25. The control of purchase orders?

26. The use of a petty cash fund for small purchases?

27. The conduction of market and vendor analyses?

28. The protection of supplies and equipment from theft?

29. The spot checking of ward stocks?

30. The rotating of dated items?

31. The establishment of back orders?

32. The delivery of supplies to wards?

33. The obtaining of proof of delivery?

34. The average per cent of fill?

35. The number of items at zero balance?

36. The average processing time for requisitions and purchase orders?

37. The determination of inventory carrying costs?

Footnotes

[1]"Guidelines for Centralized Purchasing," p. 110; Fearson, "Managing the Purchasing Function," p. 76; Wozeak, "Can We Measure Purchasing Performance?," p. 88; Lee and Dobler, Purchasing and Materials Management, p. 7.

APPENDIX C

GUIDELINES FOR CENTRALIZED PURCHASING

GUIDELINES FOR CENTRALIZED PURCHASING[1]

These guidelines were prepared to assist hospital governing boards and administrators in developing a centralized purchasing program that would aid in improving patient care and employee utilization by providing high-quality products and services at the lowest possible cost.

1. The purchaser is the only individual designated and authorized to initiate, sign, and place all purchase orders for the hospital.

2. The purchaser prepares and publishes a procedure manual for the operation of his department.

3. The purchaser is responsible for the coordination with other departments of the receipt, the storage, and the distribution of all supplies and equipment which he purchases within the framework of sound business practices.

4. The purchaser is responsible for establishing and maintaining practical inventory levels of hospital supplies consistent with needs.

5. The purchaser is responsible for the return of merchandise when indicated.

6. The purchaser has the responsibility of reviewing and, if necessary, questioning requisitions of the

various departments and is responsible for the submission of usage reports.

7. The purchaser serves other department heads in an advisory capacity on the subjects of hospital supplies, equipment, services, and maintenance contracts.

8. The purchaser is a member of committees whose activities are related to the purchasing function, including the evaluation of products.

9. The purchaser publishes policies for interviews with salesmen and manufacturers' representatives.

10. Purchases are made from reputable dealers having a sound financial background and the ability to make prompt and complete delivery and to provide adequate service.

11. Commodities and services are purchased on a competitive basis. When factors of quality and service are equal, the company quoting the lowest price is awarded the order or contract.

12. The evaluation of market trends and conditions affecting the purchase of supplies, equipment, and services is the responsibility of the purchaser.

13. Purchasing merchandise or providing it from inventory for the personal use of hospital employees or professional staff members is not good hospital purchasing practice.

14. Acceptance of personal gifts or gratuities is not permissible under good purchasing policy.

15. The hospital should have an explicit policy on the use of the institution's name or the names of its personnel in the public endorsement of commercial products and services. Such a policy should, in any event, prohibit the use of the institution's name and the names of its personnel without official approval of the institution.

Footnotes

[1]"Guidelines for Centralized Purchasing," p. 110.

APPENDIX D

REQUISITION FORMS

SHORT FORM

SEND ORIGINAL TO STORE ROOM.
RETAIN DUPLICATE

STORES REQUISITION

REQUISITION NO._____

DEPARTMENT_____ DATE_____ 19____

FLOOR OR DIVISION_____ DATE REQUIRED_____ 19____

QUANTITY		DESCRIPTION OF SUPPLIES NEEDED	TO BE USED IF PERPETUAL INVENTORIES ARE KEPT.			
WANTED	DELIVERED		PRICE	PER	AMOUNT	ACCT. NO.

Requested By

Approved By

Form 784 Briggs Printing, Des Moines, Iowa 50311

Stores Requisition

76

Presbyterian HOSPITAL of DALLAS

DEPT. _____

DATE: _____

QUAN.	CODE NO.	DESCRIPTION	ISSUED	UNIT PRICE	PER	EXT.			

APPENDIX E

PURCHASE ORDER FORM

PRESBYTERIAN HOSPITAL
OF DALLAS

8200 WALNUT HILL LANE • DALLAS, TEXAS 75231

PURCHASING DEPARTMENT

PURCHASE ORDER

NUMBER

Purchase Order Number MUST be shown on tag, box, bill of lading, express receipt, invoice and all correspondence.

RETURN INVOICE IN TRIPLICATE TO PRESBYTERIAN HOSPITAL OF DALLAS, 8200 WALNUT HILL LANE, DALLAS, TEXAS 75231, ACCOUNTING DEPARTMENT.

SHIP TO:

PRESBYTERIAN HOSPITAL OF DALLAS
8200 WALNUT HILL LANE,
DALLAS, TEXAS 75231
RECEIVING DOCK

F.O.B.—RECEIVING DOCK, PRESBYTERIAN HOSPITAL OF DALLAS UNLESS OTHERWISE SPECIFIED.

PURCH. ORD. DATE	DATE REQUIRED	QUOTE NO.	REQ'N. NO.	TERMS	DEPARTMENT

ITEM AND DESCRIPTION	CATALOG NUMBER	QUANTITY AND UNIT	UNIT PRICE	TOTAL

INSTRUCTIONS

THE RIGHT IS RESERVED TO RETURN FOR FULL CREDIT ALL OR ANY PART OF THE ITEMS APPEARING HEREON SHOULD THEY NOT MEET SPECIFICATIONS EVEN THOUGH RECEIPT HAS PREVIOUSLY BEEN ACKNOWLEDGED.

CASH DISCOUNT PERIODS WILL DATE FROM RECEIPT OF INVOICE AT PRESBYTERIAN HOSPITAL OF DALLAS OR FROM DATE OF RECEIPT OF GOODS AND NOT FROM DATE OF INVOICE.

IF YOU ARE UNABLE TO MAKE DELIVERY WHEN, AND AS PROMISED, PLEASE ADVISE WHEN SHIPMENT CAN BE MADE.

WE RESERVE THE RIGHT TO CANCEL ALL OR ANY PART OF ABOVE ORDER NOT DELIVERED AS PROMISED.

NO RESPONSIBILITY WILL BE ASSUMED BY PRESBYTERIAN HOSPITAL OF DALLAS FOR VERBAL ORDERS BY EMPLOYEES OUTSIDE THE PURCHASING DEPARTMENT UNLESS CONFIRMATION IS GIVEN BY THE PURCHASING AGENT OR HIS DESIGNATED REPRESENTATIVE.

PRESBYTERIAN HOSPITAL OF DALLAS

THIS IS A NON-PROFIT ORGANIZATION
THEREBY NOT SUBJECT TO STATE SALES TAX

BY _____
PURCHASING AGENT

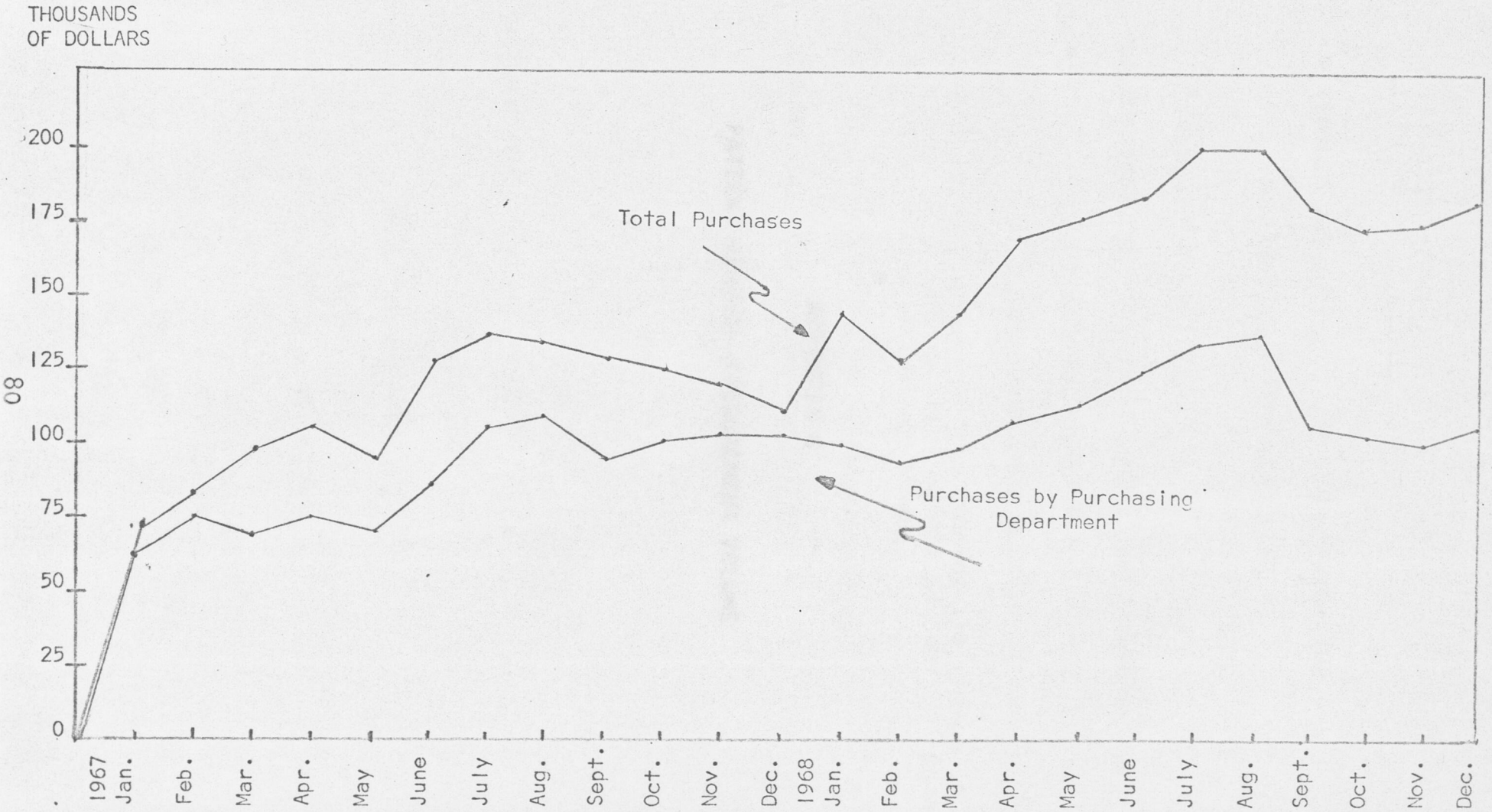
VENDOR'S COPY

APPENDIX F

MONTHLY VALUE OF PURCHASES

MONTHLY VALUE OF PURCHASES

PRESBYTERIAN HOSPITAL, 1967 & 1968



Source: Monthly Financial and Administrative Reports, Presbyterian Hospital, Dallas, Texas.

APPENDIX G

PATIENT CENSUS--PROCUREMENT VOLUME

FORMULA AND CALCULATIONS FOR APPLICATION OF LEAST SQUARES TREND LINE

FORMULA: $y = a + b(x)$

EXPLANATION: y = Dollar volume of procurement.

x = Patient census.

a = Intercept on y axis.

b = Slope of the line or the change in procurement volume per unit of change in patient census.

N = Number of observations.

COMPONENTS: $\Sigma xy = \Sigma XY - \frac{(\Sigma X)(\Sigma Y)}{N}$

$$\Sigma x^2 = \Sigma X^2 - (\Sigma X)^2$$

$$b = \frac{\Sigma xy}{\Sigma x^2}$$

$$a = Y - bx$$

CALCULATIONS: $\Sigma Y = 95{,}079$

$\Sigma xy = 576{,}751{,}800$

$\Sigma x^2 = 1{,}510{,}964$

$b = 381$

$y_c = 36 + 381\ (175)$

$y_c = 66{,}751$

$y_c = 36 + 381\ (315)$

$y_c = 121{,}051$

APPLICATION: Through the use of this formula, the trend line can be plotted on the graph. By the use of the trend line, future procurement volume in relation to patient census can be determined. As is shown by the graph on page 85, Patient Census--Procurement Volume, the procurement volume based upon a patient census of 500 would be approximately $190,000. Applying the trend line formula of $y = 36 + 381(x)$, with x being 500, the procurement volume would be more accurately computed as follows:

$$y = 36 + 381(500)$$

$$y = 36 + 190,500$$

$$y = \$190,536$$

STATISTICAL DATA, PROCUREMENT VOLUME AND PATIENT CENSUS
1967-1968

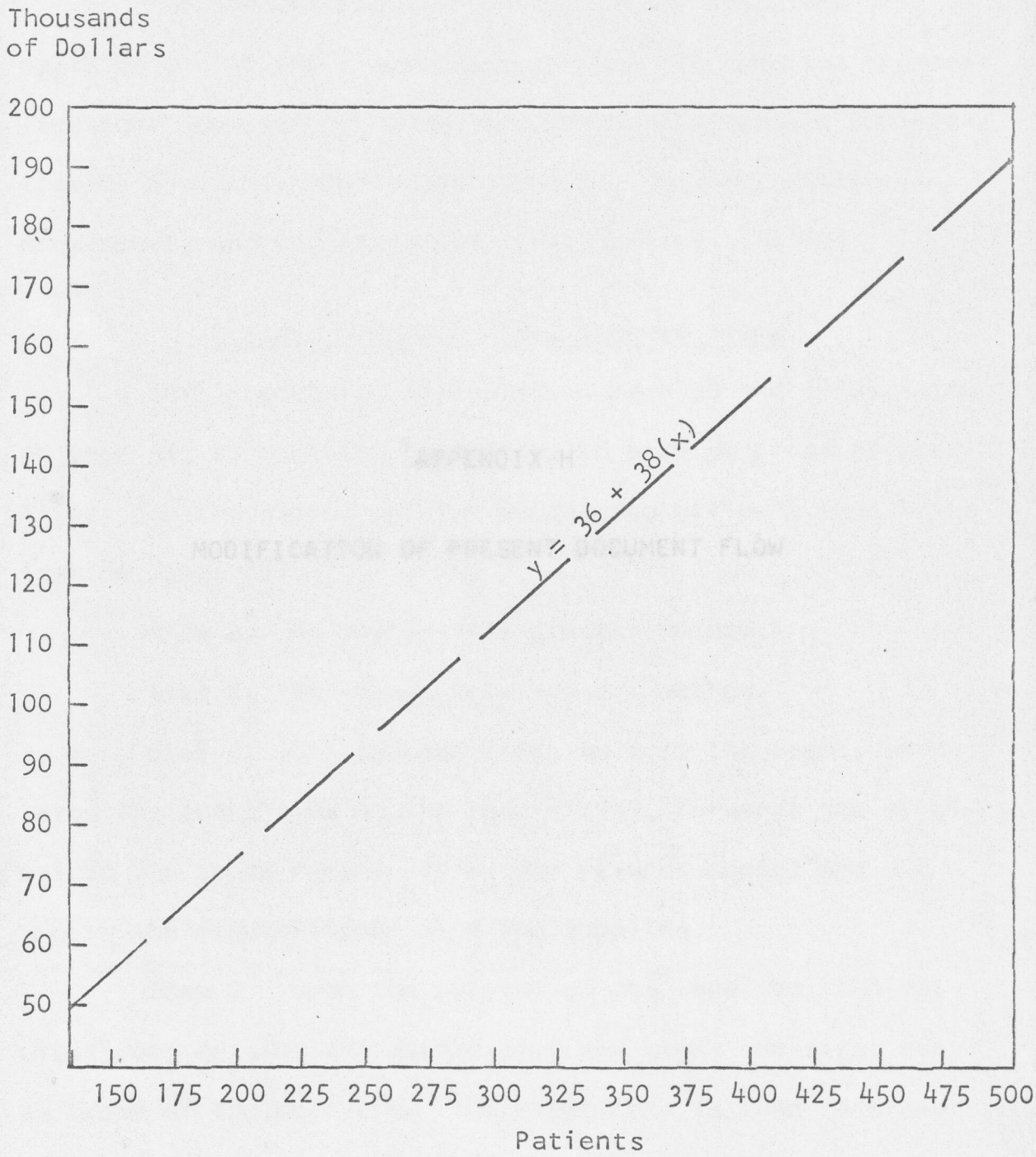
Month & Yr. (N)	Procurement Volume (Y)	Patient Census (X)	Y^2	X^2	ΣXY
1967:					
Jan	$ 63,400	165	$ 4,019,560,000	27,225	10,461,000
Feb	82,900	182	6,872,410,000	33,124	15,087,800
Mar	62,500	165	3,906,250,000	27,225	10,312,500
Apr	70,200	179	4,928,040,000	32,041	12,565,800
May	65,900	175	4,342,810,000	30,625	11,532,500
Jun	85,000	215	7,225,000,000	46,225	18,275,000
Jul	100,000	207	10,000,000,000	42,849	20,700,000
Aug	103,400	206	10,691,560,000	42,436	21,300,400
Sep	86,700	203	7,516,890,000	41,209	17,600,100
Oct	90,000	211	8,100,000,000	44,521	18,990,000
Nov	93,000	212	8,649,000,000	44,944	19,716,000
Dec	93,000	208	8,649,000,000	43,264	19,344,000
1968:					
Jan	87,900	270	7,726,410,000	72,900	23,733,000
Feb	86,000	275	7,396,000,000	75,625	23,650,000
Mar	97,400	281	9,486,760,000	78,961	27,369,400
Apr	111,100	268	12,343,210,000	71,824	29,774,800
May	111,700	275	12,476,890,000	75,625	30,717,500
Jun	111,700	296	13,689,000,000	87,616	34,632,000
Jul	129,900	309	16,874,010,000	95,481	40,139,100
Aug	132,600	293	17,582,760,000	85,849	38,851,800
Sep	106,200	315	11,278,440,000	99,225	33,453,000
Oct	102,800	344	10,567,840,000	118,336	35,363,200
Nov	100,100	325	10,020,010,000	105,625	32,532,500
Dec	103,200	297	10,650,240,000	88,209	30,650,400
TOTAL	$2,281,900	5,976	$224,992,090,000	1,510,964	576,751,800

SOURCE: Monthly Patient Census Reports and Monthly Financial Summary Reports, Presbyterian Hospital, Dallas, Texas.

PATIENT CENSUS--PROCUREMENT VOLUME

PRESBYTERIAN HOSPITAL

1967-1968



SOURCE: Monthly Patient Census Reports and Monthly Financial Summary Reports, Presbyterian Hospital, Dallas, Texas.

APPENDIX H

MODIFICATION OF PRESENT DOCUMENT FLOW

MODIFICATION OF PRESENT DOCUMENT FLOW

The present requisitioning system, discussed on pages 28 and 30 and illustrated on page 29, requires no modification. However, in order to correct the current administrative problems, the present document flow for stocked, nonstocked, and replenishment items must be modified.

Present Document Flow, Stocked Items

This procedure, discussed on page 30 and illustrated on page 31, is modified as follows to provide proof of delivery for the stores and the purchasing officers (see illustration, page 88):

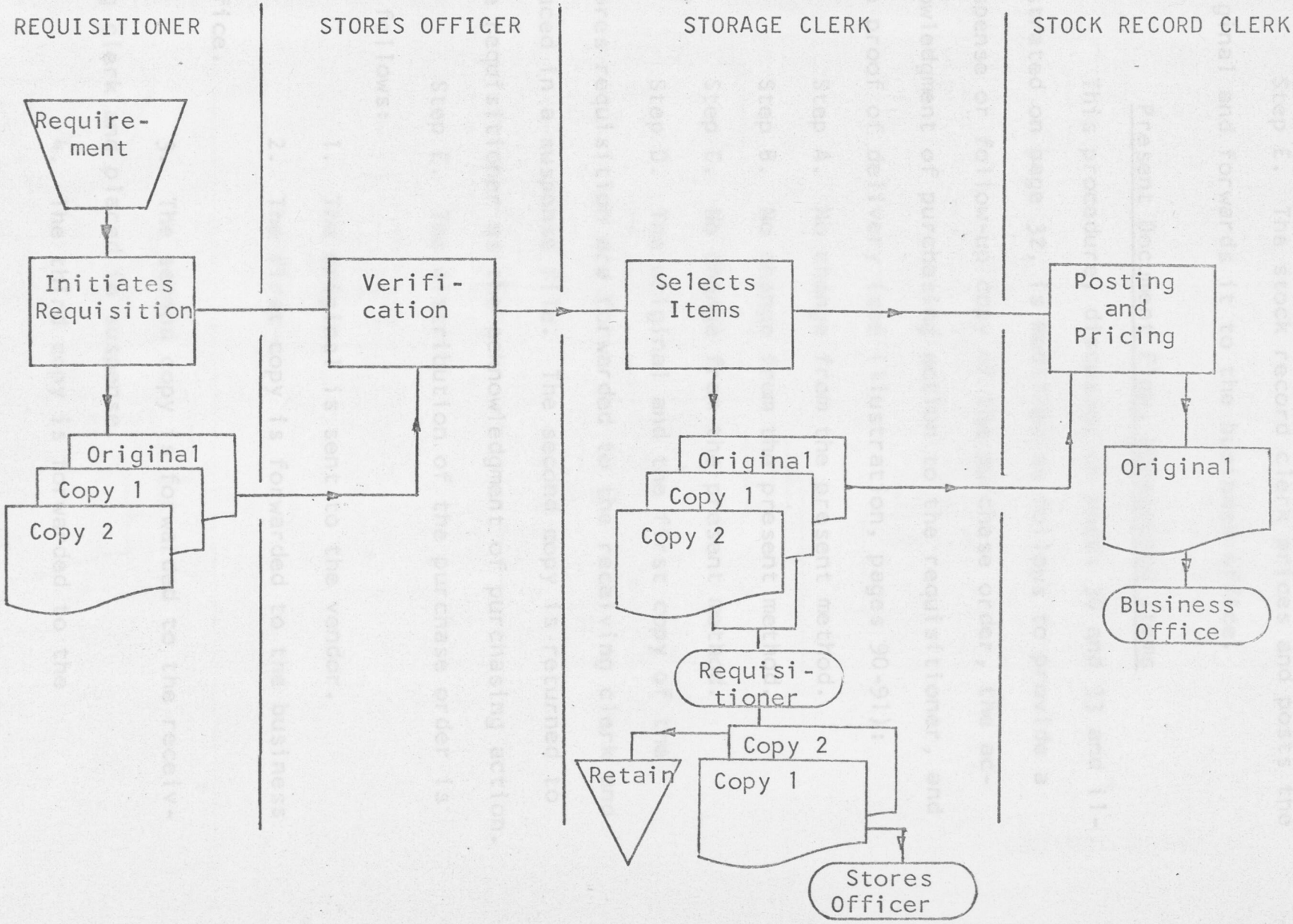
Step A. No change from present method.

Step B. No change from present method.

Step C. The storage clerk selects the items, annotates the quantities on the requisition, forwards the original to the stock record clerk, and returns copies one and two to the requisitioner with the supplies.

Step D. Upon the receipt of the supplies, the requisitioner retains the second copy and signs the first copy as proof of the delivery. The first copy is then returned to the stores officer and filed.

MODIFIED DOCUMENT FLOW, STOCKED ITEMS



Step E. The stock record clerk prices and posts the original and forwards it to the business office.

Present Document Flow, Nonstocked Items

This procedure, discussed on pages 30 and 33 and illustrated on page 32, is modified as follows to provide a suspense or follow-up copy of the purchase order, the acknowledgment of purchasing action to the requisitioner, and the proof of delivery (see illustration, pages 90-91):

Step A. No change from the present method.

Step B. No change from the present method.

Step C. No change from the present method.

Step D. The original and the first copy of the stores requisition are forwarded to the receiving clerk and placed in a suspense file. The second copy is returned to the requisitioner as the acknowledgment of purchasing action.

Step E. The distribution of the purchase order is as follows:

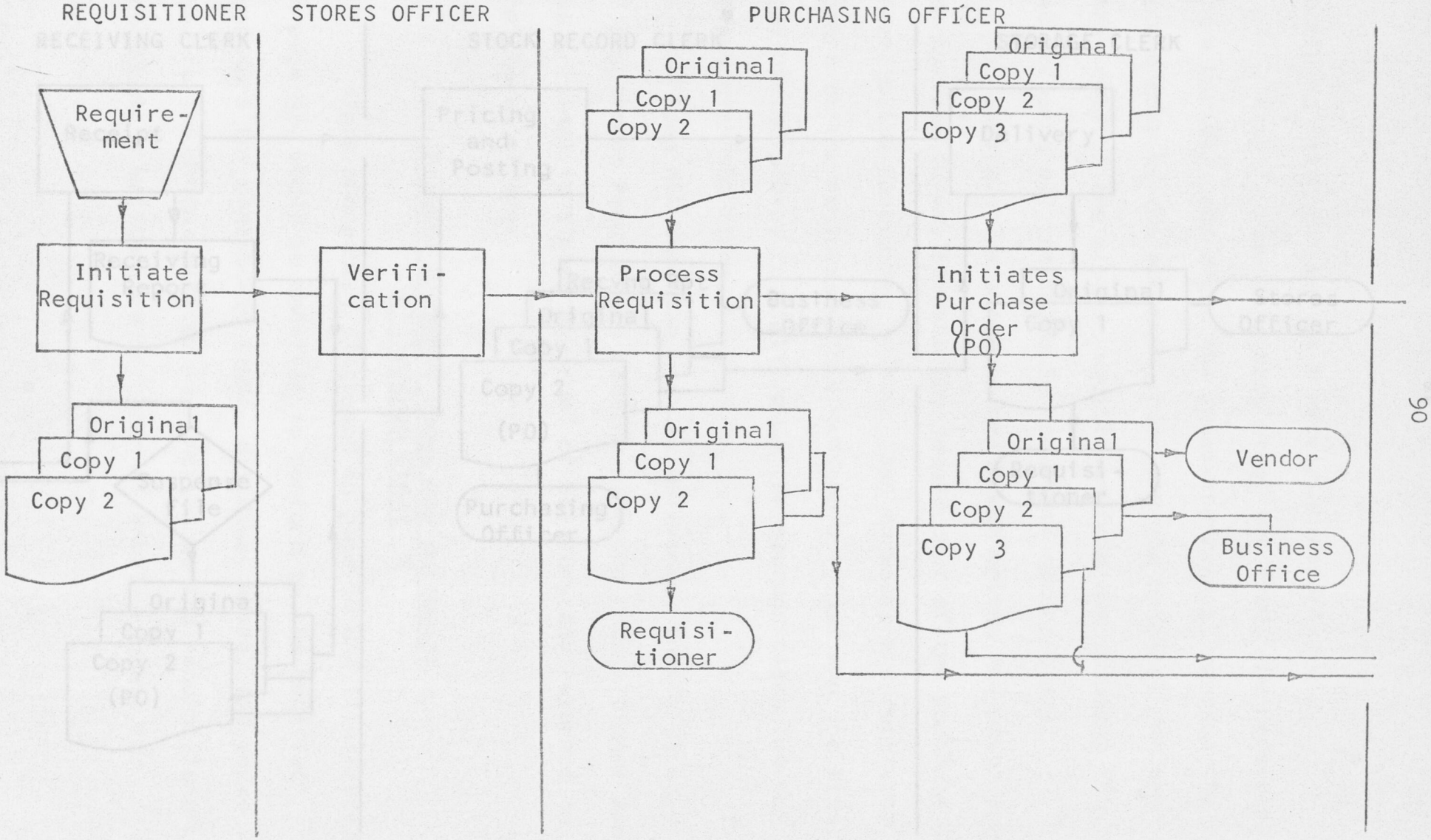
1. The original is sent to the vendor.

2. The first copy is forwarded to the business office.

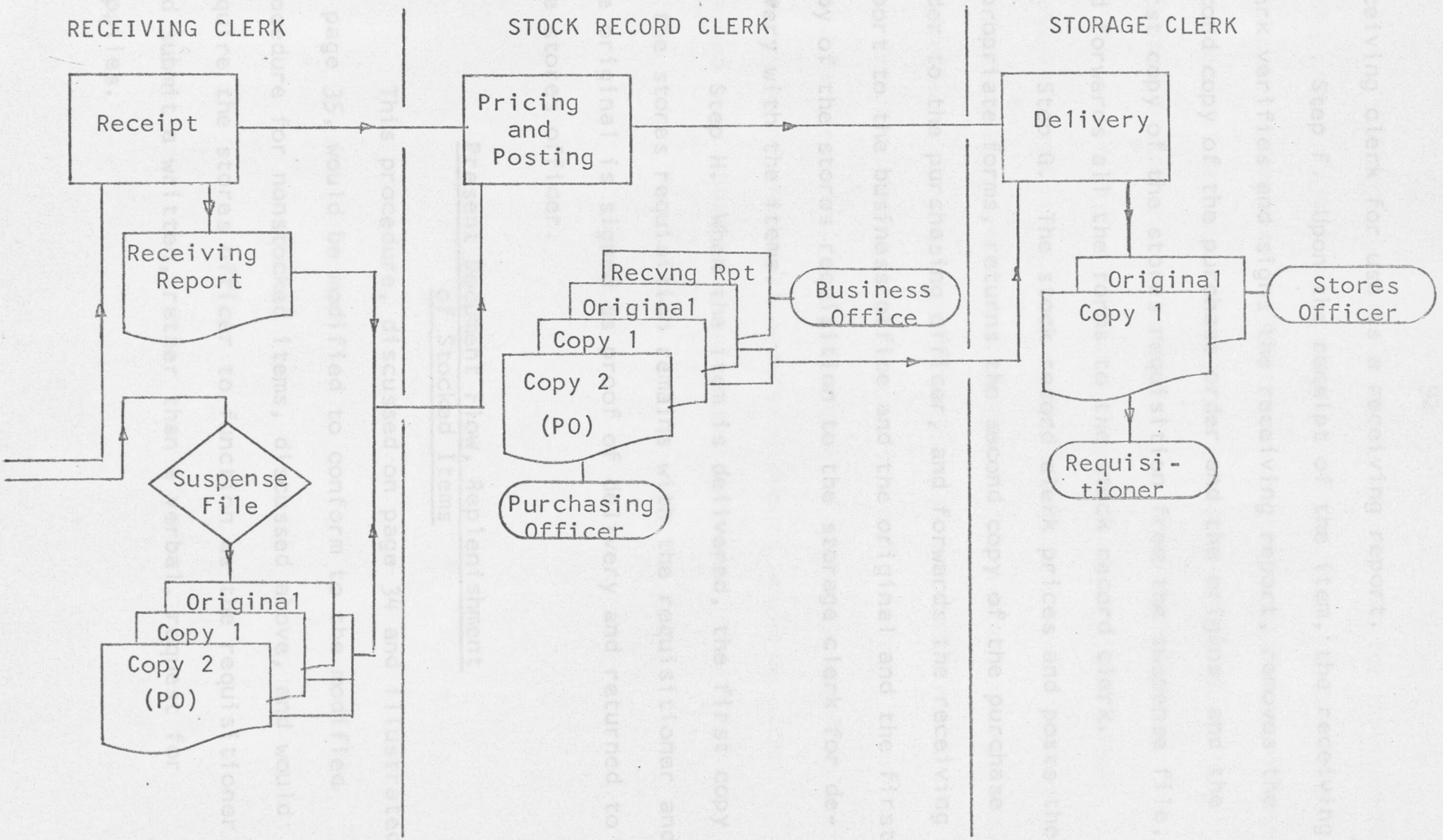
3. The second copy is forwarded to the receiving clerk and placed in suspense.

4. The third copy is forwarded to the

MODIFIED DOCUMENT FLOW, NONSTOCKED ITEMS



CONTINUED ON PAGE 91


RECEIVING CLERK
STOCK RECORD CLERK
STORAGE CLERK
Receipt
Pricing and Posting
Delivery
Receiving Report
Recvng Rpt
Original
Copy 1
Copy 2 (PO)
Business Office
Purchasing Officer
Original
Copy 1
Stores Officer
Requisi-tioner
Suspense File
Original
Copy 1
Copy 2 (PO)

receiving clerk for use as a receiving report.

Step F. Upon the receipt of the item, the receiving clerk verifies and signs the receiving report, removes the second copy of the purchase order and the original and the first copy of the stores requisition from the suspense file, and forwards all the forms to the stock record clerk.

Step G. The stock record clerk prices and posts the appropriate forms, returns the second copy of the purchase order to the purchasing officer, and forwards the receiving report to the business office and the original and the first copy of the stores requisition to the storage clerk for delivery with the items.

Step H. When the item is delivered, the first copy of the stores requisition remains with the requisitioner and the original is signed as proof of delivery and returned to the stores officer.

Present Document Flow, Replenishment of Stocked Items

This procedure, discussed on page 34 and illustrated on page 35, would be modified to conform to the modified procedure for nonstocked items, discussed above, and would require the stores officer to function as the requisitioner and submit a written, rather than a verbal, request for supplies.

This procedure would differ from that for nonstocked items only in that the storage clerk would place the items in stock rather than deliver them to the requisitioner; both the original and the copy of the purchase order would be returned to the stores officer.

Modification of the document flow in these three areas--stocked items, nonstocked items, and replenishment of nonstocked items--can be instituted with minimal operational disruption. In the event of a partial shipment from a vendor, interim proof of delivery slips and receiving reports would be created. Final clearance of the suspense file and forwarding of the final receiving report would be accomplished upon receipt of the final shipment.

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Leonette Burgess, Accounts Payable Section Supervisor.
Helen Flood, Accounts Payable Section clerk.
Warren Garfield, Director of Personnel Services.
William Haire, Administrative Resident.
Pat Harris, Director of Volunteer Services.
Harold McKay, Director of Pharmacy Services.
Doris Wilson, Director of Dietary Services.
Mary Yates, Purchasing Officer.

Rappaport, Bernard, Assistant Administrator. Private interview held at Santa Rosa Medical Center, San Antonio, Texas, April 24, 1969.

ABSTRACT

A STUDY OF THE PURCHASING SYSTEM AT PRESBYTERIAN HOSPITAL OF DALLAS, DALLAS, TEXAS

A Problem Solving Project Report Submitted to the Faculty of Baylor University in Partial Fulfillment of the Requirements for the Degree of Master of Hospital Administration

By Major Dennis B. Forrer, MSC

August, 1970 99 Pages

A copy of this document may be obtained on loan from the United States Army Medical Field Service School, Brooke Army Medical Center, Fort Sam Houston, Texas.

The purpose of this study was to determine the best system for controlling the requisitioning, purchasing, and receiving of and the payment for supplies at the Presbyterian Hospital, Dallas, Texas. Data were gathered through personal interviews with hospital personnel, reviews of the hospital's financial and administrative records, and review of the literature pertaining to hospital and industrial purchasing.

The conclusions reached from this study were: (1) The purchasing system employed at the Presbyterian Hospital created administrative difficulties relating to the documentation necessary for the receipt, the payment, the accountability, and the monitoring of supplies for use within the hospital, (2) the lack of written guidance concerning policies and procedures created difficulties in authority and responsibility determinations and operation of the purchasing activity, and (3) the elimination of these problems would be possible by modifying and further centralizing the present system.

The following actions were recommended in order to enhance the hospital's purchasing operation:

1. The publication of written policy and procedural guidance.
2. The revision of requisitioning and purchasing documentation procedures.
3. The establishment of document-processing time frames.
4. The computation and the maintenance of stock levels.