



RIKSREVISIONEN
The Swedish National Audit Office

RiR 2009:2 Summary

Procurement of IT solutions by the Social Insurance
Agency

Summary

The Swedish NAO has audited the efficiency of the Social Insurance Agency's procurement procedures when it comes to IT solutions.

Reasons for the audit

The Social Insurance Agency has implemented comprehensive changes in recent years. The issue of IT development has been central to that effort. Upgrading IT support has been regarded as a vehicle to ensure more efficient administration, as well as one way to address the unequal treatment and protracted case management periods that have long beset the social insurance system.

The ability to more efficiently manage IT activities was one of the most common arguments for merging the National Social Insurance Board and 21 independent social insurance offices in 2005.

Procurement of consultancy services that precede major IT projects must be properly managed. The procurement process shall comply with EU regulations and the Public Procurement Act (LOU). The preliminary study conducted by the Swedish NAO in autumn 2008 found indications of problems associated with the purchasing of IT solutions. Among the problems is that tender periods had consistently been very short and that the evaluation criteria and tender request documentation had been unclear and incomplete. Such problems may restrict competition. The above results of the preliminary study led to the present audit.

Focus of the audit

The Swedish NAO decided to audit acquisitions associated with four IT projects in recent years.

- Procurement of a standard system for disbursements. The purpose was to replace an older mainframe-based system that earlier had managed the task.
- Sub-ordering under a general agreement of an IT-based system to facilitate administration of the newly approved Dental Care Benefit, a reform under which dentists are compensated for certain treatments.
- Sub-ordering under a general agreement of IT support to create a new portal for electronic customer meetings, as well as providing customer service representatives with an overview of customers. The goal is to create a new portal on the Social Insurance Agency website from which citizens have a greater ability to obtain and manage data about their cases.

- Sub-ordering under a general agreement to migrate benefit systems from a technologically outdated legacy platform to a more state-of-the-art environment.

LOU strives to ensure equal treatment of various suppliers and minimise government costs. That is expected to generate efficiency gains. The Swedish NAO proceeded from LOU and underlying EU regulations to assess the efficiency of the Social Insurance Agency's purchasing procedures concerning IT solutions. The purpose of the audit was to explore the reasons for any inadequacies and describe their consequences.

The Swedish NAO was in touch with the Swedish Competition Authority, which supervises public procurement processes, during the course of the audit. Special experts were engaged to support the assessments. Worth noting is that the Swedish NAO does not have the legal authority to determine whether a government agency has complied with LOU. Thus, its assessments have no legal effect.

Conclusion of the Swedish NAO: purchasing has not complied with regulations

In the view of the Swedish NAO, purchasing of IT solutions has failed to comply with LOU in a number of aspects. The primary inadequacies are low-quality tender request documentation and procurement reports, as well as deadlines that are too short. In addition, sub-ordering has been done under general agreements when regular procurement processes would have been more appropriate.

Unclear tender request documentation

Tender request documentation shall indicate which requirements, if any, are mandatory – i.e., those that must be met for the tender to be accepted. Although the tender request documentation for procurement of disbursement systems asked suppliers a number of key, decisive questions, the very few mandatory requirements primarily involved administrative matters. There was a risk that a supplier that failed to meet the requirements for providing the system would win the procurement process if its price was significantly lower than that of its competitors.

The Social Insurance Agency's written documentation for sub-ordering was also unclear and insufficiently informative to ensure the submission of proper tenders. As a result, suppliers had difficulty setting a price in two cases.

Some tender request documentation totally lacked evaluation criteria. Other documentation contained criteria but did not indicate how the various requirements would be evaluated and weighted against each other. The documentation for neither procurement of the disbursement system nor the three sub-ordering processes explained how the various requirements would be evaluated. The general agreement did not specify the evaluation criteria to be used during the sub-ordering process to choose tenders. In order to ensure transparency and predictability for suppliers, such criteria should

appear in the agreement.

Deadlines were too short

Given the number of questions in the tender request documentation that suppliers needed to answer, the one-month tender period for the procurement of the disbursement system was too short. The deadlines for submitting tenders during sub-ordering processes were too short in relation to the complexity of the assignments.

Procurement reports lack key elements

A procurement report must clearly state the reason that the winning tender was chosen.

The report on procurement of the disbursement system did not explain how the tenders had been evaluated and weighted against each other. The report should have clearly documented the reason that the procurement process was negotiated instead of being open or selective. Available Social Insurance Agency documentation of the procurement process does not sufficiently explain why a negotiated approach was chosen. Instead of insisting that suppliers adapt their tenders to the agency's requirements, the agency and suppliers arrived at final tenders by sending questions and answers back and forth. Suppliers were allowed to add extensive new information during the negotiating process.

Two sub-ordering processes had no, or overly succinct, procurement reports.

Complex sub-ordering was conducted under general agreements

Two of the sub-ordering processes were too complex to be conducted under general agreements. Regular procurement processes should have been carried out instead.

The Social Insurance Agency did not comply with the legislation that was in effect when the sub-ordering processes were carried out. Sub-ordering under the general agreement was conducted by means of "renewed exposure to competition," which lacked support in LOU either at the time or when the general agreement was concluded.

Terms of the general agreement were changed in sub-ordering agreements

The Social Insurance Agency substantially changed general agreement terms in the sub-ordering agreements. The changes involved both payment and liability. Changing contractual terms after a tender has been submitted discriminates against suppliers whose tenders complied with the terms of the general agreement.

Consequences: competition was restricted and the Social Insurance Agency obtained unfavourable terms

Restricted competition

The submission of tenders by a large number of suppliers increases the likelihood that the purchased IT solutions will have a competitive price and high quality. In most of the cases under consideration, only a few tenders were submitted. One probable explanation is that the tender periods were too short. Unclear tender request documentation may also restrict competition by discouraging suppliers from submitting tenders.

Changing general agreement terms, such as by making them more generous to suppliers in a sub-ordering agreement, can also restrict competition. Some suppliers may have refrained from submitting tenders due to the terms of the general agreement. Had they known that the sub-ordering agreement terms would be different, they might have submitted tenders.

Because evaluation criteria for choosing tenders were lacking in the general agreement for sub-ordering processes and were unclear in the tender request documentation, suppliers enjoyed poorer transparency and predictability.

Terms unfavourable to the Social Insurance Agency

Changing general agreement terms in the sub-ordering agreements led to poorer commercial terms for the Social Insurance Agency. For instance, the agency may pay in advance instead of post-delivery or the liability of suppliers for delays may be less clear. Lack of clarity concerning contractual stipulations that involve supplier liability may make it more difficult for the agency to demand compensation for delays and defective quality. Requiring payment in advance instead of post-delivery increases the risk of delays.

One main reason for the inadequacies: the Social Insurance Agency devotes too little time to purchasing procedures

The audit identified inadequacies in the Social Insurance Agency's purchasing procedures. In the view of the Swedish NAO, one main reason is that too little time is devoted to large, complex purchases. Another main reason is that the agency's purchasing unit, partly because it got involved at a late stage, appears to have had a weak position with internal orderers in the audited cases.

The audit found that the effort to develop efficient procedures and checkpoints for purchasing procedures at the agency that resulted from the merger is still under way. A certain amount of disarray prevailed at the time that the purchases were audited. The purchasing unit is carrying out a development effort that has devised a number of concrete activities. Implementation of the activities in a way that has the intended impact will reduce the risk of inadequacies similar to those detected by this audit.

Recommendations

The audit revealed that the Social Insurance Agency has not fully complied with LOU when making its purchases. Deadlines have been too short and suppliers have not been provided with the transparency and predictability they need to submit proper tenders. As a result, procurement and sub-ordering processes have been less efficient than they would have been otherwise.

The Swedish NAO recommends that the Social Insurance Agency ensure that sufficient time is devoted to preparation when purchasing complex IT solutions.