

# Developing a Purchasing Manual

Presented By  
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## Agenda

- ▶ General Purchasing Process
- ▶ Types of Purchasing Arrangements
- ▶ Purchasing Requirements
- ▶ Procurement Options
- ▶ Disposal of Surplus Items
- ▶ Travel Regulations and Reimbursements
- ▶ Local Requirements and Preferences
- ▶ New Trends in Purchasing
- ▶ Q & A

## General Purchasing Process

- ▶ Basic Goals
- ▶ Conflicts of Interest
- ▶ Buying Proper Quality and Quantity
- ▶ Personal Purchases
- ▶ Types of Fraud in Purchasing Process
- ▶ Internal Control

## Basic Goals

- ▶ To comply with legal requirements of public purchasing
- ▶ To assure vendors impartial and equal treatment will be afforded
- ▶ To receive maximum value for each dollar spent
- ▶ To provide departments with needed supplies and services
- ▶ To purchase only supplies and services for which funds have been approved
- ▶ To ensure organizational funds are not used for purposes that are personal in nature, but are required for the performance of one's duties and for usual and customary business practice

## Conflicts of Interest

- ▶ Employee or member of immediate family has a financial interest pertaining to contract
- ▶ A business or organization in which employee or immediate family member is employed has a financial impact pertaining to contract
- ▶ Any contract in which an employee has a financial interest, directly or indirectly, shall be void EXCEPT when a result of open bidding

## Buying Proper Quality & Quantity

- ▶ Quality and service importance
- ▶ Buy what you need that meets, but not exceeds needs
- ▶ Consideration regarding quality and quantity:
  - Durability
  - Immediate Availability
  - Ease of Installation
  - Frequency of Repair
  - Life Cycle Costs or EPA mileage Rates (motor vehicles)

## Personal Purchases

- ▶ Generally should be prohibited.
- ▶ Only approved by Chief Executive or highest ranking official
- ▶ No personal charges on organization credit card
- ▶ Exceptions:
  - Logo shirts with City logo

## Fraud in Purchasing Processes

- ▶ Bid Rigging
  - External (bidders)
  - Internal (staff)
- ▶ False Claims
- ▶ Double Payments
- ▶ Travel Claim Fraud
  - Reimbursements requested for meals already provided free as part of conference program
  - Reimbursements for unallowable expenses (alcohol, personal entertainment)
- ▶ Misuse of Assets and Services

## Internal Controls— Accounts Payable and Disbursements

- ▶ To prevent overpayments, input invoice numbers in the financial system; require invoices to state the PO # used to place the order
- ▶ Do not request checks to outside vendors be returned to departments or employees
- ▶ Pay only from original invoices
- ▶ Limit “rush” or manual checks if the issuance is not critical
- ▶ Do NOT permit purchases of personal items
- ▶ Establish a policy to outline conflict of interest guidelines pertaining to purchasing products or services from employees or relatives of employees

## Types of Purchasing Arrangements

- ▶ Competitive Bid Guidelines
- ▶ Exclusions from Competitive Bidding
- ▶ Specifications
- ▶ Request for Proposals
- ▶ Request for Qualifications

## Competitive Bid Guidelines

- ▶ Ensures appropriate stewardship of organization's funds – stands the test of public scrutiny
- ▶ Promotes competition
- ▶ Assists in surveying the marketplace
- ▶ Requests terms and conditions that are favorable to the organization, rather than the supplier
- ▶ Written bid documents ensure each vendor receives the same information, including addendums
- ▶ Bid documents clearly define bid information and submission instructions
- ▶ Written proposals document vendor responses

## Exclusions from Competitive Bidding

- ▶ Professional Services
  - Some exclusions per state statute – architects, engineers
  - Organization may include other professional services as exclusions
- ▶ Sole Source – needs written justification
  - Only one product or service will meet need
  - Only one source for compatibility to other items
  - Extensions of current contract
  - Unique or artistic purchase
- ▶ Emergency Purchases
  - Threatens mission of organization
  - Protection of property

## Specifications

- ▶ Provides bid requirements in simple format
- ▶ Identifies minimum bid requirements
- ▶ Reserves right to accept, reject or modify and and/or all bids
- ▶ Use standard bid response form
- ▶ Provides data for objective review
- ▶ Provides for an equitable award at the “best possible cost
- ▶ Provides for indemnification of the organization, as appropriate

## Specification Types

- ▶ Performance, Purpose or Use
- ▶ Samples
- ▶ Identification with Industry Standards
- ▶ Drawings or Dimension Sheet
- ▶ Qualified Products or Acceptable Brands List
- ▶ Limited Use of Brand Names – must include “or equivalent”
- ▶ Chemical Analysis or Physical Properties

## Request for Proposals vs. Qualifications

- ▶ Request for Proposal
  - Quote – when the exact type and quantity is known
  - Proposal – may include more than one option in areas such as purchase or lease, delivery alternatives and payment options
- ▶ Request for Qualifications
  - Part of preliminary selection process
  - Describes project in enough detail to let vendors know whether they want to participate
  - Generates a pool of prospects
  - Generates ideas
  - Sometimes performed prior to RFP's

## Purchasing Requirements

- ▶ Competitive Bid Requirements
- ▶ Council or Board Bid Requirements
- ▶ Public Notice–Types & Requirements
- ▶ Responsible & Responsive Bidder
- ▶ Unreasonable & Unacceptable Bids
- ▶ Bid Processes
- ▶ Bid Deposits & Performance Bonds
- ▶ Non–performance



## Competitive Bid Requirements

- ▶ The most advantageous method of purchasing should always be used
- ▶ Solicitation by e-mail, regular mail or phone call should be made for lower cost purchases
- ▶ Written bids of at least 3 vendors should be made for larger more significant purchases
- ▶ Purchases exceeding a certain threshold should be approved only with Board or Council approval

## Competitive Bid Example: Webster Groves

- ▶ Purchases under \$1,500:
  - Most advantageous method used
- ▶ Purchases from \$1,500–\$5,000:
  - 3 bids solicited by email, mail, or phone call
- ▶ Purchases from \$5,000–\$15,000:
  - 3 bids solicited in writing
- ▶ Purchases over \$15,000:
  - Formal bid requirement with Council approval necessary to proceed with funding of purchase

## Public Notice–Types & Requirements

- ▶ Distribution or dissemination of information to interested and relevant parties:
  - Newspapers of general circulation
  - Electronic or paper mailing lists
  - Websites designated and maintained for that purpose
    - Organization’s website with additional module or link
    - Third–party software or vendor (Craig’s List)

## Responsible & Responsive Bidder

- ▶ Responsible Bidder: A person who has the capability in all respects to perform fully the contract requirements, and the integrity and reliability that will assure good faith performance.
- ▶ Responsive Bidder: A person who has submitted a bid that conforms in all material respects to the invitation to bid.

## Responsible & Responsive Bidder

- ▶ Conformity to the specifications in the invitation to bid
- ▶ The ability, capacity, and skill of the bidder to perform
- ▶ Whether the bidder can perform the contract to provide the services promptly or within required time periods without delay or interference
- ▶ The quality of performance of previous contracts or services

## Responsible & Responsive Bidder

- ▶ The previous and existing compliance by the bidder with laws and ordinances of the organization, city and state
- ▶ The financial resources and the ability of the bidder to perform the contract or provide the service
- ▶ The quality, availability and adaptability of the supplies or services
- ▶ Life cycle costs

## Unreasonable & Unacceptable Bids

- ▶ Bids that are non-competitive, unacceptable or unreasonable as to the terms and conditions, or the low bid exceeds available funds
- ▶ Circumstances dictate a difference in general practice:
  - Discuss modifications with bidders to bring price down to an acceptable level
  - Discuss parameters with bidders where modifications are not made to secure the best price which still must be under budget

## Bid Processes

- ▶ All public notices and invitations to bid must state the time and place for bid opening
- ▶ All bids must be submitted sealed to the organization official designated in the invitation to bid
- ▶ All sealed bids must be opened in public in the presence of one or more witnesses
- ▶ A tabulation of all bids received as well as each bid must be made available for inspection
- ▶ The Chief Executive has the authority to reject all bids
- ▶ Written bid withdrawals may be granted

## Bid Deposits & Performance Bonds

- ▶ Required for certain large sum purchases to protect the organization in the event the low bidder attempts to withdraw his bid or to serve as a barrier to financially irresponsible bidders
  - Cashier's check
  - Escrow with 3<sup>rd</sup> party
  - Performance Bonds
- ▶ Required by state law when the organization enters into construction contracts, and may be required in other contracts involving phased work and phased payment schedules

## Non-Performance

- ▶ Recourses:
  - Liquidated damages under terms of performance bond
  - Obtain needed items from another source and charge delinquent vendor the excess difference in cost
  - Terminate the contract for default if it is in the best interest of the organization and if the items can be obtained under more favorable conditions from other sources

## Disposal of Surplus Items

- ▶ Avoidance of Conflicts
  - Employee directly involved in the sale of surplus wanting to purchase surplus items
- ▶ Competitive Process
  - Sealed bids
  - Auctions
    - Organization handles own traditional or silent auction
    - Third party on-line auctions
    - Craig's list and eBay
  - Open market sales

## Procurement Options

- ▶ Standard Purchase Contract
- ▶ Blanket Purchase Contract
- ▶ Purchasing Cards
- ▶ Purchase of Used Equipment

## Standard vs. Blanket Contract

- ▶ Standard Contract
  - Used when exact items and quantities are known
- ▶ Blanket Contract
  - Approves a vendor
  - Used to establish price, payment, delivery terms and period of the order
  - Generally “not to exceed”
  - Authorized personnel will issue orders throughout the period
  - Saves bidding and review time

## Cooperative Purchasing Groups

- ▶ State of Missouri contracts
- ▶ County
- ▶ Consortia where products and services have been competitively bid
  - Consortium of Local cities
  - Cooperating School Districts
  - Kansas City Regional Purchasing Cooperative
  - US Communities – Government Purchasing Alliance
  - HGACBuy

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## Purchasing Cards

- ▶ Improves efficiency
- ▶ Reduces paperwork
- ▶ Empowers users to make purchasing decisions within guidelines of policies
- ▶ Creates flexibility in making small dollar purchases
- ▶ Reduces administrative cost associated with purchase orders checks (lower transaction costs)
- ▶ Expedites delivery of goods
- ▶ Rebates available from banks based on dollar volume



## Purchasing Cards

- ▶ Employees must sign an agreement
- ▶ No personal use
- ▶ Restrict card use for types of merchants and daily/monthly spending limits
- ▶ Detailed, approved receipts should be attached to monthly bill
- ▶ Use purchasing history for management information
- ▶ Be on the alert for:
  - Duplicate Payments – Best if individual vendor is entered into accounting system
  - Potential abuse despite good controls

## Purchase of Used Equipment

- ▶ New equipment is generally preferred
- ▶ Situations where used equipment could be considered:
  - Price is of prime importance and the difference in cost between new and used goods is significant
  - Equipment will be used infrequently, for a limited time, or for training or auxiliary operation
  - Used is preferred
- ▶ Equipment should be evaluated by organizational maintenance operation or third party
- ▶ Verify replacement parts are available
- ▶ Check availability for warranty or guarantee

## Travel Regulations & Reimbursements

- ▶ General Regulations
- ▶ Travel Expense Approval and Report
- ▶ Reimbursable vs. Non-reimbursable Expenses
- ▶ Mileage/Airfare/Vehicle Rental
- ▶ Reimbursement Based or Per Diem
- ▶ Travel Advance


## General Travel Regulations

- ▶ Allow travel that conserves public funds, provides equitable treatment of all personnel, and allows travel in a manner that is dignified and reflects credit on the organization
  - Decisions on which out-of-state trips are allowed
  - Approval of trips by department head, finance director or Chief Executive
  - Good judgment and proper regard for the economy
  - No personal expenses reimbursed

# Travel Expense Approval & Report

- ▶ Travel must be approved in advance by department head, finance director or Chief Executive
- ▶ Within 3 days of returning from trip, the Travel Approval Form must be completed and submitted to Finance Department along with unused portion of travel advance.
- ▶ Required receipts should be attached





**CITY OF WEBSTER GROVES**  
Travel Approval Form

Requested by: \_\_\_\_\_ Dept. \_\_\_\_\_

Requested Leave Dates: From / / To: / / Account # \_\_\_\_\_

Meeting Purpose: \_\_\_\_\_

Sponsoring Agency & Location: \_\_\_\_\_

	Payable To	Amount	Acct. #
#1 Check		\$	
#2 Check		\$	

Travel Approved by: \_\_\_\_\_  
Department Manager / City Manager

	Associated Expense Report				
	A	B	C	D	E
	Estimated Cost	Actual Total Cost	Paid Directly by City	Paid by Purchase Card	Paid by Employee
Registration					
Lodging					
Food					
Airfare					
Mileage					
Miscellaneous: Itemize below					
1					
2					
3					
<b>TOTALS</b>	\$	\$	\$	\$	\$
<b>Amount Due City</b>	\$		<b>Amount Due Employee</b>	\$	

Expenses Approved by: \_\_\_\_\_  
(Supervisor)

Complete Leave Request section and Column (A) of Expense Report prior to submission for approval. Columns (B), (C), (D) and (E) of Expense Report will need to be completed upon return from travel. Receipts for expenses incurred must be attached to this form and submitted within three (3) days of your return for Supervisor approval prior to submission to Finance Dept. for reimbursement.

## Reimbursable vs. Non-reimbursable Expenses

- ▶ Reimbursable Expenses:
  - Hotel charges for dates of conference
  - Meals not provided during conference and meals consumed while to and from the conference
  - Registrations paid directly by employee (should not do this unless there is no way to pay directly thru organization)
  - Mileage to and from the conference
  - Telephone calls to the organization or for other business services
  - Baggage storage and other incidental expenses

## Reimbursable & Non-reimbursable Expenses

- ▶ Non-reimbursable expenses:
  - Alcohol
  - Personal phone calls
  - In-room movies
  - Hotel lodging, meals, etc for days prior to or after the conference
  - Spouse or guest expenses

## Mileage/Airfare/Vehicle Rental

- ▶ Standard IRS mileage rate, plus tolls, parking and garage charges will be paid for use of a personal vehicle
- ▶ Use of airfare is limited to coach or economy fares. Travel to and from stations and airports may be by shuttles, rapid transit, limousine, taxi or private vehicle, keeping the cost to a minimum
- ▶ Vehicle Rental is only authorized with the prior approval from the Chief Executive

## Reimbursement Based on Per-Diem

- ▶ Daily allowance for expense
- ▶ Used frequently for meals and miscellaneous
- ▶ May be used for portions of a day
- ▶ Organization may set rates, or US federal travel regulations may be used for the travel location
- ▶ Why use Per Diems?
  - Processing easier with no tracking of receipts
  - Limits the exposure on costs
  - No judgment needed on appropriateness

## Travel Advance

- ▶ Only issued when the projected expenses to be incurred by the traveling employee or official would pose a financial burden
  - Requests must be submitted 2 weeks in advance of travel
  - If authorized, all receipts for actual expenses incurred shall be submitted with the Travel Approval Form
  - Excess of travel advance should be returned to Department Director within 3 days of employee return to work shift
  - Additional finance staff time to track advances

## Procurement Preferences

- ▶ Buying American
- ▶ Buying Local
- ▶ Green Procurement
- ▶ Women/Minority Business Enterprise

## Buy American – Buy Local

- ▶ Must have preferences written in policy, usually in organization's guiding documents such as ordinances or code
- ▶ Buy American preference
  - U.S. Company or manufactured in U.S.
- ▶ Local Business preference
  - Is company really local – franchise, conglomerate?

## Women/Minority Business Enterprises

- ▶ Preference or Target
- ▶ Previously termed “Disadvantaged Businesses”
- ▶ Required percentage target for federally funded projects
- ▶ May also have local preference
- ▶ Assure current certification with the State of Missouri

## Green Procurement (Environmentally Preferable Purchasing)

- ▶ Green Procurement
  - Products or services that have a lesser or reduced effect on human health and the environment
  - May consider raw material acquisition, production, manufacturing, packaging, distribution, operation, maintenance, disposal and re-use
  - May be phased into policies
  - Examples:
    - Recycled or Recyclable
    - Biodegradable
    - Reduced packaging
    - Disposal of materials
    - Hybrid vehicles

## New Trends in Purchasing

- ▶ From Green to Sustainable
  - “All sustainable business roads lead through the procurement function.” *Dave Meyer, Value Stream Performance Advisors*
- ▶ e-Procurement
- ▶ Shed image of cost control/policing to Strategic Value
- ▶ Move decisions to middle management as they become the most knowledgeable about suppliers and products
- ▶ Socially Responsible Purchasing
- ▶ Sweatshop Free Purchasing – <http://buysweatfree.org>



## Resources

- ▶ Missouri Association of Public Purchasing, [www.mappi.org](http://www.mappi.org)
- ▶ National Institute for Governmental Purchasing (NIGP), [www.nigp.org](http://www.nigp.org)
- ▶ Kavander & Robinson, May 2009, Association of Public Treasurers' "Guide to Internal Controls"
- ▶ Gauthier, Stephen J., 1996, "Evaluating Internal Controls"
- ▶ Thai, Khi V., 2007, "Introduction to Public Procurement" second edition.

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