
Section 4: Finance

Chapter 20: Purchasing

Introduction

Purchasing departments exist to help governments manage their finances by making the best expenditure decisions possible. Elected officials have an important responsibility to monitor the finances of their organizations, part of which includes approving purchase transactions. There are several ways that the legislative body can support purchasing activity. First, the council establishes the vision for the organization, setting the tone for the day-to-day activities, as well as the ethical standards for the organization. Elected officials can set meaningful rules regarding fairness and open competition and work to keep these rules current. Finally, councils can support professional development and technological improvements.

This chapter will provide an understanding of the public purchase process through a review of enabling legislation and a discussion of the day-to-day aspects of the operation.

State Statute

There are no longer any state statutes requiring public bids on municipal contracts. 1993 PAs 167 & 168 which required municipalities to seek competitive bids for purchases over \$20,000 in order to receive state shared revenue money, were repealed in 1996. The state has relegated the task of developing public purchasing guidelines to local governments.

Charter Provisions

Local government officials must look to their charter for purchasing guidelines and restrictions. A charter may establish who is responsible for purchasing (such as the manager or administrator) and also include the maximum dollar amount that can be appropriated before advertising for competitive bids. Other local control

mechanisms for the allocation of municipal funds are through ordinances and policies. In recent years, in order to set more realistic spending limits, some municipalities have amended their charters (which requires review by the governor and a vote of the electors) to allow the purchasing function to be legislated by local ordinance.

Local Ordinances

Legislation has a major impact on the services that can be provided to residents. The activities conducted in public procurement are restricted to those authorized by law. Therefore, many public entities have an ordinance that defines important parameters of the purchasing process. Well-written legislation will allow the purchasing department flexibility in using criteria in addition to price as evaluation tools. This ordinance may discuss how responsibility for the purchasing function flows. For example, the ordinance may state that the organization's executive branch (manager, mayor, administrator, etc.) may enter into contracts based on the recommendation of the purchasing director with approval of the legislative body for certain dollar limits.

Ordinances will vary in the level of detail included. Some will establish a dollar amount for obtaining both written bids and legislative approval for purchase transactions; advertising requirements; and outlining the circumstances in which competitive bidding is not required. Ordinances may further detail specific responsibilities of the purchasing function such as encouraging competition; promoting standardization in the use of like products throughout the organization; barring vendors from bidding opportunities; and disposal of obsolete property. Some organizations have socially motivated buying policies, such as local preferences or disadvantaged business

programs.

In these cases, authorization for such programs will often be addressed within this enabling legislation.

Cradle to Grave Philosophy

Professionally staffed purchasing departments follow the “cradle to grave” philosophy. In other words, a purchasing department is responsible for obtaining all of the products and services needed by the organization at the right time, for the right price and in the right quantity (*cradle*). Purchasing should redistribute property, equipment and other resources among departments when necessary (*mid-life*). Finally, purchasing is responsible for disposing of the organizations’ assets once they have become obsolete and of no further use (*grave*).

The purchasing process begins with the adoption of the budget, which is the organization’s fiscal plan for the year. The budget document provides purchasing with information about upcoming capital projects, equipment and service needs, as well as daily operating supply item needs. Purchasing uses this financial perspective to plan the timing of purchase transactions and to combine the needs of several departments with the overall goal of taking advantage of quantity discounts.

The budget document can be used by purchasing to prepare a procurement calendar. This calendar is a plan for bidding all capital and recurring operating supply needs. The calendar helps purchasing meet the entity’s needs using an organized approach. The purchasing calendar, in conjunction with the budget, permits the organization to spread its expenditures throughout the fiscal year.

The next step involves developing specifications or an exact description of the product or service needed. This may be done by the end user, the purchasing department, an outside consultant if the item is complex in nature, or it may be a group effort. Purchasing reviews the specifications for completeness and clarity, and makes sure this description is open to competition and

not restrictive in nature. Competitive bidding has long been recognized as one of the best avenues to insure a healthy and equitable public purchasing process (*Public Procurement Management, First Edition*, NIGP, Herndon, VA 2000).

The specifications are combined with the appropriate terms and conditions into a bid document and are advertised in the local press and distributed to suppliers that are able to respond. Advertising is an expense, which in lean economic environments, may be considered expendable. It is important to note that posting public notices of purchase transactions is an essential component of maintaining an exemplary and inclusive process.

Bidders are informed of the date, the exact location, and the time of day responses must be submitted (often referred to as the bid due date or bid opening date). This is critical information in that if this deadline is missed, bidders run the risk of their bids not being accepted. In general, bids are submitted to the clerk’s office or some other area independent of the purchasing or requesting department. They are time-stamped and held in a secure location until the time of the scheduled bid opening. Such precautions help protect the integrity of the bid process by reducing the possibility of bid tampering. Bid openings are conducted in public and vendors are encouraged to attend and take advantage of the opportunity to review the responses submitted by their competitors.

Companies and their respective responses are evaluated to determine the lowest responsive and responsible bidder. This allows for a review of the product, its pricing and compliance with the specifications (*responsive*), as well as the offering firm’s financial standing, references and experience (*responsible*). Although price is always of primary concern, a vendor that delivers a quality product on time may prove to offer a lower overall product cost.

After the evaluation process, the purchasing transaction will be submitted to the legislative body for approval in accordance with the dollar limits set within

the charter, ordinance, or policy. Transactions below the specified limit will be approved administratively.

Purchasing departments are typically responsible for disposing of the organization's obsolete assets. Property disposal can be handled as a trade-in allowance toward the purchase of a new piece of equipment, using a sealed bid process or by conducting a live auction often with a professional auctioneer. The evaluation standards work in reverse of the purchase process, i.e., the highest bidder is selected.

Purchasing as a Corporate Citizen

Purchasing has a responsibility to and relationship with both internal and external customers. It often functions as an ambassador to the business community while at the same time working to protect the organization's interests. The purchasing department has a responsibility to its suppliers to be fair, accessible and to conduct its business with integrity.

Its internal customers are the employees that rely on purchasing to acquire the products and services needed to carry out their work. Purchasing works closely with the corporation counsel to make sure that policies, procedures, contracts, etc. properly protect the organization while being fair to vendors. The department has an impact on the municipality's financial health by fostering competition and making sure it pays a fair price for products and services. These efforts serve to instill behaviors that project the organization as business-friendly and well managed.

Trends

As with other areas, the impact of technology on the public purchasing arena has been substantial. Purchasing has incorporated technology into its processes in several ways. First, it is common for purchase orders to be generated using a software package specifically designed for this purpose, automatically routed through the approval process, and sent to the vendor electronically.

Another example is the use of the internet. Purchasing professionals can research products, locate distributors, and receive timely information online. Many public organizations have a website which can be used as a mechanism to reach a wider pool of vendors. Information can be posted to the internet on doing business with the organization as well as a list of currently available bid opportunities. Websites can be used as an alternative bid document distribution method. Rather than incurring duplicating, envelope insertion, and postage costs, bids can be generated electronically and posted to the website. Interested vendors can print these documents as needed.

Some advanced technology applications allow vendors to submit bid responses to the organization electronically while still following the established bid security procedures. Some departments are moving away from the practice of maintaining vendor databases and are placing the responsibility of researching opportunities on the business community.

Cooperative purchasing arrangements are another emerging trend. The concept behind cooperative buying is to seek and obtain the best deal possible by buying in volume. These arrangements cover the spectrum from being formal, dues paying groups to having informal alliances that meet on an as-needed basis. In order to be successful, members must agree on the types of products that can be of use to the group and incorporate the flexibility for each organization to fine tune its needs into the specifications.

Conclusion

The public purchasing process is conducted in accordance with the organization's enabling legislation, in an open, accessible, and competitive manner. Technology should be used to expedite the process, enhance the routine aspects of the operation and to conduct research.

A well run, professional purchasing operation reflects positively on the entire organization. As an elected official, you can encourage suppliers to contact the

purchasing department knowing they will be treated fairly. Taxpayers can be informed that their money is being handled responsibly.

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