

Section 4: Finance

Chapter 20: Purchasing

Introduction

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.

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to seek competitive bids for purchases over \$20,000 in order to receive state shared revenue money, were repealed in 1996.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 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.

Purchasing Process

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.

The budget document can be used to prepare a procurement calendar 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 of the product or service needed. The specifications are combined with the appropriate terms and conditions into a bid document and are advertised in the local press and distributed to service providers/vendors.

Bidders are informed of the date, the location, and the time-of-day responses must be submitted (often referred to as the bid due date or bid opening date). In general, bids are submitted to the

clerk's office or some other area independent of the 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, as well as the offering firm's financial standing, references, and experience. 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 agents 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.

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 process reflects positively on the municipality. 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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