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# Procurement Process

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Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

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# Procurement Process

Reference Number: CTAS-195

Procurement in the county is a *process through which offices acquire the goods and services needed to perform their specific tasks.* Procurement includes the stages of planning and scheduling, source selection, and contract administration. Within the stages of procurement dwell the activities from planning, preparation and processing of the requisition, solicitation, award and contract information, to receipt and acceptance of delivery, payment, inventory tracking (if a county has a central warehouse), and property disposition (surplus property).<sup>1</sup> Following are some points that should be considered when making any purchase:

- The commencing of the purchasing process is to identify the need and product or service that will best fulfill that need.<sup>2</sup>
- Develop specifications that describe the characteristics of a product or service being sought. Specifications should be written to encourage, not discourage competition. The goal is to invite maximum reasonable competition.<sup>3</sup>
- Requisitions should be prepared with accurate and complete information.
- Seek bids in accordance with applicable statutes. Seek price quotations (for purchases below the sealed bid limit requirement) in accordance with applicable statutes and/or local purchasing policies and procedures.
- Award should go to the lowest responsive bidder who meets the specifications of the product or services requested.
- Contracting for the product or service should be in accordance with applicable statutes.
- Receive the product or service and verify that it meets the requirements of the purchase order or contract.<sup>4</sup>

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<sup>1</sup>*The Acquisition Process*, State of Idaho, Purchasing Division, 3-1.

<sup>2</sup>*ibid*, 3-1.

<sup>3</sup>*ibid*, 3-1.

<sup>4</sup>*ibid*, 3-1.

## The Purchasing Cycle

Reference Number: CTAS-923

The purchasing cycle encompasses all phases of procuring goods and services essential to maintaining and enhancing operations of county government. A series of consecutive activities constitutes the basic steps in the purchasing cycle. A "sample purchasing cycle (centralized financial management system)" in county government is illustrated below:<sup>1</sup>

### Sample Purchasing Cycle (Basic Steps)

1. Need is recognized by the user department.
2. User department develops purchase requisition, keeps a copy and forwards original to purchasing (or central finance in 1981 CFMS counties).
3. Purchasing reviews requisition for accuracy and completeness.
4. If accurate, the purchasing department checks to see if funds are available to purchase the goods or services. The finance department verifies availability of funds.
5. The purchasing department checks if goods are available in stock or excess (surplus).
6. If funds are available, the purchasing department determines method of purchasing decision of whether regulations require bids to be solicited.
7. If purchase exceeds the small purchasing threshold, purchasing requests quotations through ITB, IFB, or RFP.
8. The purchasing department receives and tabulates bid quotations.

9. If bids are approved, the purchase order is processed and mailed.
10. Vendor supplies the ordered goods or services, and submits the invoice to the purchasing department or to central finance/accounting.
11. Receiving report is routed to central finance/accounting.
12. Central finance/accounting verifies that the purchase order and invoice coincide (agree), and pays the invoice.
13. Disposition of surplus, salvage, or scrap goods.

Purchasing cycle flowchart examples.

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<sup>1</sup>See Lincoln University of Missouri, *Purchasing Cycle*, (November 2003) 1 and Blount County, Tennessee, *Purchasing Policies and Procedures*.

## The Requisitioning Process

Reference Number: CTAS-924

Requisitioning is the formal request for a purchase to be made. It is the first step after the need for goods or services is recognized. The user department's purchase requisition authorizes the purchasing department to enter into a contract with a vendor to purchase goods or services.<sup>1</sup> The purpose of the requisition is to inform the purchasing department of the department's needs, and to correctly identify the item(s) or services required.<sup>2</sup> In most counties that have a centralized finance/purchasing system, a pre-printed purchasing requisition form is used to convey the purchase request to the purchasing department.

The purchase requisition should contain accurate and complete information describing the goods or services needed for the on-going operations of the user department. The purchase requisition should fully describe to the purchasing department what to buy, when it is required, and where the goods are to be delivered or the services are to be performed.<sup>3</sup> Many pre-printed purchase requisition forms have an area where the user department can enter a budget account line item number to utilize for their requested purchase. This allows the purchasing department to check for available budget fund balances before making the purchase determination.

Preparation of the requisition should be performed far enough ahead of the date that the goods or services are needed to allow the purchasing department and the vendor to do their jobs properly, including-

- Advertising for bids, if necessary (including allowing adequate time for specification writing);
- Obtaining bids, proposals, or price quotations;
- Processing bids or proposals, placing purchase orders, or concluding contracts; and
- Allowing delivery of goods or services.<sup>4</sup>

*The requisition should contain, among other things, the following information:*

- The date of the requisition (month, day, year).
- Name of the department.
- Requisition number.
- Departmental contact and telephone number.
- Date required/requested.
- Delivery destination.
- Budget account number(s).
- Estimated cost (unit price and total).
- Vendor identification.
- Quantity required, including unit of issue.
- Description—clearly describe the item needed, including any technical requirements. The department may need to include detailed specifications and other required information as a separate attachment to the requisition.<sup>5</sup>

- Signature of department head or person authorized to sign requisition.

After the purchasing department receives the purchase requisition, it reviews the purchase requisition for completeness and adequate or inadequate information (e.g., recommended necessary specification changes, signature of person authorized to sign requisition, etc.). If the requisition is prepared with complete and adequate information, the purchasing department determines the appropriate purchasing method based on the cost of the purchase, the goods and services to be purchased, the existing contracts for goods and services, and other relevant factors.<sup>6</sup> One of the main purposes of the purchase requisition is that it provides a record that can be inspected and audited.

Sample purchase requisition.

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<sup>1</sup>Welcome to County Procurement, Texas Purchasing Association, January 2004, 12.

<sup>2</sup>National Institute of Governmental Purchasing, *General Public Purchasing*, (Falls Church, VA: 1991), 4-3

<sup>3</sup>Welcome to County Procurement, P. 12

<sup>4</sup>Williamson County, Texas, Purchasing Manual Policies, (Revised 2001) 2.

<sup>5</sup>ibid, 2.

<sup>6</sup>ibid, 12.

## The Purchase Order

Reference Number: CTAS-925

The purchase order is the written evidence of a contract between the buyer and supplier for the purchase of goods or services at an agreed price and delivery date.<sup>1</sup> The purchase order is a vehicle by which the buyer formalizes the contract with the supplier. It is the supplier's authority to ship and charge for the goods specified in the order.<sup>2</sup> It is the purchaser's commitment for the value of the goods ordered.<sup>3</sup> It is a legal document and must therefore contain all the elements of the contract.<sup>4</sup> It should cover clearly and precisely the essential elements of the purchase to be made in a manner that minimizes any confusion between the buyer and seller.<sup>5</sup> Most counties use preprinted forms that contain general instructions, standard terms and conditions (generally referred to as "*boilerplate*" and often printed on the back of the purchase order or on a separate preprinted sheet and incorporated by reference), and adequate space to fully define the specific agreement.<sup>6</sup> At a minimum, the purchase order form may be used to describe the essential elements of description, quantity, and price of the goods or services to be purchased; purchase order date and number; supplier's name and address; delivery date(s) and shipping information; payment terms and buyer's name, and signature. Most organizations also include standard terms and conditions.<sup>7</sup> Special terms and conditions, detailed specifications and drawings, and additional supporting information and documents that are part of a particular procurement can be incorporated in the purchase agreement by reference on the purchase order.<sup>8</sup>

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<sup>1</sup>Harold E. Fearon, et al., *The Purchasing Handbook*, Fifth Edition, (New York, NY, McGraw-Hill 1992), 88.

<sup>2</sup>George W. Alijan, et al., *The Purchasing Handbook*, Third Edition, (New York, NY, McGraw-Hill 1973) 3-36.

<sup>3</sup>ibid, Third Edition, 3-36.

<sup>4</sup>ibid, Fifth Edition, 90.

<sup>5</sup>ibid, Fifth Edition, 88.

<sup>6</sup>ibid, Fifth Edition, 88.

<sup>7</sup>ibid, Fifth Edition, 88.

<sup>8</sup>ibid, Fifth Edition, 88.

## The Receiving Report

Reference Number: CTAS-926

After goods or services have been received, the final action required (in counties that utilize receiving reports) by the receiving department is to confirm the receipt of the goods or services. The receiving

department matches the items actually received, the packing list provided by the supplier of the shipment, and the receiving copy of the purchase order. The goods and/or services received is recorded on a receiving report, with any discrepancies and partial shipments noted. This information is forwarded to purchasing, central finance, or any other departments needing to know that the material has been received.<sup>1</sup> To save time and paperwork, some organizations use the packing slip from the shipment as a material receipt form.<sup>2</sup>

Sample receiving report.

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<sup>1</sup>Harold E. Fearon, et al., *The Purchasing Handbook*, Fifth Edition, (New York, NY, McGraw-Hill 1992), 95.

<sup>2</sup>ibid, Fifth Edition, 95.

## Procurement's Relation to Other Financial Functions

Reference Number: CTAS-927

Every purchase activity produces financial transactions that are firmly connected to accounting and budgeting functions. Patricia C. Watt, in *An Elected Official's Guide to Procurement*, lists the following examples:

- Accounting—After a requisition is prepared, but before a purchase order or contract is completed, many county governments frequently encumber (set aside) a portion of the budget allocation in the accounting system to pay for the purchase. Upon approval of the invoice, payments are made and recorded in the accounting system.<sup>1</sup>
- Budgeting—Budget development depends on good estimates of the costs and timing for the goods and services. Procurement planning and scheduling should go hand in hand with budget development.<sup>2</sup>
- Materials Management—When goods are received by a county department, they are received at a designated department or central warehouse (if the county has a central warehouse). The receiving report (if used) is then forwarded to purchasing, central finance, or any other departments needing to know that the material has been received. Good inventory management and buying practices (i.e., re-ordering goods) enhance the efficiency of any purchasing system. Poor inventory management and buying practices (i.e., re-ordering goods) waste the gains of an efficient purchasing system.<sup>3</sup>

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<sup>1</sup>Patricia C. Watt, *An Elected Official's Guide to Procurement*, (Government Finance Officers Association), 20.

<sup>2</sup> ibid, 20.

<sup>3</sup> ibid, 20.

## Procurement's Relation to Other Departments

Reference Number: CTAS-928

The purchasing function is a service. The purchasing department in a county with centralized finance/ purchasing system is a service agency for all other departments in the county. The purchasing department supplies the purchasing needs of all departments as prescribed by a general law of local application (CFMS of 1981 or County Purchasing Law of 1957) or private act. In performing this function the purchasing department is charged with optimizing the quality, service, and price in the purchase of goods and services. The purchasing department is in constant contact with other departments, and cooperation and mutual confidence is absolutely essential. The purchasing department should be knowledgeable of and must be in understanding with the particular requirements of the user departments (departments requesting goods or services), material and equipment needs, and must exercise tact, discretion, and diplomacy to establish harmonious relations with the other departments.<sup>1</sup>

The purchasing department is the real link between other departments in the county government and its potential and existing suppliers. How well the purchasing department coordinates and performs its duties has a great influence on the performance of other county departments.

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<sup>1</sup>George W. Alijan, et al., The Purchasing Handbook, Third Edition, (New York, NY, McGraw- Hill 1973), 3-21.

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