



April 25, 2025

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# Purchasing Principles and Techniques

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# Purchasing Principles and Techniques

Reference Number: CTAS-196

## County Procurement Objectives

The National Institute of Purchasing (NIGP), a national organization of public purchasing professionals, asserts that all procurement functions have essentially the same goal: "Obtaining maximum value for the tax dollar."<sup>1</sup>In the procurement professional's attempt to obtain the goods and services at the lowest price and at the necessary quality level, he/she strives to fulfill certain objectives in the day-to-day endeavors related to the purchasing functions. What then are the objectives in purchasing? The National Institute of Public Purchasing maintains that the objectives of purchasing are—

- To obtain the *right materials or services* (meeting quality requirements) in the *right quantity* for delivery at the *right time* (to take advantage of seasonal pricing or special price concessions) to the *right place* (ensure availability to customers) from the *right source* (a responsive and responsible supplier) with the *right service* (to ensure quality) at the *right price*.
- To supply end users with an uninterrupted flow of goods and services.
- To purchase competitively.
- To place emphasis on quality and best value.<sup>2</sup>

Spending county taxpayers' money requires the purchase of goods and services to be purchased in a fair, equitable, and efficient manner. The purpose is to ensure that the public monies are spent properly, legally, and that the best possible value is received for the money. Therefore, the essential objective of the county procurement function is to furnish operating departments with the goods and services they need in the right quantity, right quality, right time, as efficiently as possible, and at the lowest overall cost. The county procurement objective, by law, is to supply responsible bidders a fair and equal opportunity to compete for county business. This is accomplished by complying with statutory requirements and by the county's purchasing policy and procedures.<sup>3</sup>

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<sup>1</sup>National Institute of Governmental Purchasing, *General Public Purchasing*, (Falls Church, VA: 1991) 1-25.

<sup>2</sup>National Institute of Governmental Purchasing, *Welcome to Public Procurement*, (Herndon, VA: 2001) 4.

<sup>3</sup>*Welcome to County Procurement*, Texas Purchasing Association, 4, January 2004,

# Principles of Public Purchasing

Reference Number: CTAS-919

Purchasing is one of the most common activities of county government. The adoption of purchasing policies and procedures are important because purchasing policies—

- Send signals to the taxpayers that their money is being expended carefully;
- Send signals to the business sector that they will be treated fairly and equitably;
- Send signals to the employees that they have support, directions, and protection from their highest superiors;<sup>1</sup>
- Foster effective broad-based competition within the free enterprise system to ensure the county will receive the best possible service or product at the lowest possible price;
- Promote accountability for the use of public funds in the acquisition of goods and services;
- Establish guidelines for the acquisition of goods and services;
- Define the responsibilities of the county departments and employees in the purchasing process;
- Standardize and communicate approved purchasing practices;<sup>2</sup>
- Promote supplier understanding and cooperation;<sup>3</sup>and
- Help to train new personnel and guide others in the functions of purchasing.

The efficiency and effectiveness of any program depend on good, sound principles of management. Purchasing is no different. There are common, basic principles of purchasing which can be applied to any purchasing program to make it operate to the best advantage of the county government. Here are three (3) basic principles of public purchasing:

- Maximization of Competition—Specifications are written to allow the purchasing process to be as open as possible to a number of qualified vendors.
- Equal and Fair Competition—Each vendor is provided the same information regarding product or service needs/specifications.
- Best Value at the Lowest Price—The purchase must be made at the lowest price for the product or service that best meets the needs of the requisitioner.<sup>4</sup>

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<sup>1</sup>The University of Tennessee, Center for Government Training, *Municipal Purchasing*, 49.

<sup>2</sup>Harold E. Fearon, et al., *The Purchasing Handbook*, Fifth Edition, (New York, NY, McGraw-Hill 1992), 70.

<sup>3</sup>ibid, Fifth Edition, 70.

<sup>4</sup>Maricopa Purchasing Guide, Maricopa, AZ, 1, January 2004, 1.

## What is Procurement in the Public Sector?

Reference Number: CTAS-920

Procurement in the county is a *process* through which offices acquire the goods and services needed to perform their specific tasks. However, county procurement can only be conducted in ways that are specifically allowed by law.<sup>1</sup>

The terms “purchasing” and “procurement” are often used interchangeably. Nevertheless, “purchasing” is only one stage of procurement. The *stages of procurement* are

A. Planning and Scheduling—Good planning ensures that goods and services are delivered timely to meet operational needs. County governments should plan and schedule procurement activities to conform to budgetary objectives.

B. Source Selection (Purchasing)—The process through which solicitations are issued, advertisements run, offers are made, contracts awarded, and goods and services received.<sup>2</sup>Patricia C. Watt in “*An Elected Official’s Guide to Procurement*”, lists the methods of source selection (purchasing) as:

1. Competitive Sealed Bids—In this method the government issues an invitation to/for bids (ITB, IFB). These documents usually include a standard form on which vendors respond by filling out their bid which is the offer to provide the requested goods or services for a flat price or fixed unit cost. Bids are submitted sealed, and opened in public at a predetermined time. The award is made to the vendor submitting the lowest bid assuming the vendor is responsive to the solicitation and is made by a responsive bidder.<sup>3</sup>Competitive sealed bids are the preferred method for purchases that exceed the statutory small purchase limit thresholds.<sup>4</sup>Competitive sealed bids are generally used when the following conditions are met:

- Clear specifications are available
- The item or service is available from more than one source
- There are reproducible test methods
- An award can be made to the bidder who meets the requirements of the solicitation and has submitted the lowest price.<sup>5</sup>

2. Competitive Sealed Proposals—The competitive sealed proposal method is used for goods and services above the small purchase threshold where the specifications cannot be developed so that they are sufficiently able to make a selection solely based on price. In the competitive sealed proposal process, the county government issues a request for proposal (RFP) describing, as best it can, the needs of the county with regard to the goods and/or services to be purchased and invites interested vendors to make proposals. A “proposal” is an offer by a vendor to provide the requested

goods or services as he/she understands and recommends it at a suggested price or unit cost. Proposals are evaluated according to the criteria described in the RFP. The award is made to the proposal that is most favorable to the government considering price and the other evaluation criteria.<sup>6</sup>

3. **Informal Quotes** — Informal quotes are issued to a minimum number of vendors who then submit quotes (prices). A “quote” is less formal than a bid, and may be verbal. Informal quotes are usually done by non-advertised mail, or telephone, faxes, or by e-mail for small dollar purchases as set by the county’s policy and procedures.<sup>7</sup> The award is given to the vendor who provides the lowest quote for the specified item. Informal quotes should be fully documented.

C. **Contract Administration**—The process of ensuring the terms of the purchase agreement are enforced, goods and services delivered satisfactorily, and the bills are paid.<sup>9</sup>

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<sup>1</sup> *Welcome to County Procurement*, Texas Purchasing Association, 4, January 2004, 4.

<sup>2</sup> Patricia C. Watt, *An Elected Official’s Guide to Procurement*, (Government Finance Officers Association), 1.

<sup>3</sup> *ibid*, 35.

<sup>4</sup> *ibid*, 35.

<sup>5</sup> National Institute of Governmental Purchasing, *Welcome to Public Procurement*, (Herndon, VA: 2001), 17.

<sup>6</sup> Watt, 35. See also, *Waste Services of Decatur, LLC v. County of Lawrence*, 2012 WL 3329621 (Tenn. Ct. App. 2012), noting that an RFP is generally appropriate, for example, when the public authority is incapable of completely defining the scope of work, when the service may be provided in different ways, or when qualifications and quality are considered primary over cost.

<sup>7</sup> National Institute of Governmental Purchasing, *General Public Purchasing*, (Falls Church, VA: 1991), 4-13.

<sup>8</sup> Watt, 36.

<sup>9</sup> *ibid*, 1.

## Request for Qualifications (RFQ)

Reference Number: CTAS-921

Request for Qualifications (RFQ) is a process that is used to obtain a statement of qualifications from proposers. Proposers are asked to submit resumes, certifications, references, previous experience, and other qualifications as they relate to criteria established and set forth in the specifications portion of the RFQ document. This procedure may be used to select the most qualified individual or firm to provide technical expertise (e.g., architectural and/or engineering services). The Request for Qualifications approach emphasizes the quality of the product(s) and the qualifications of the vendors.<sup>1</sup>

The Request for Qualifications (RFQ) is a procurement process whereby service providers are selected on the basis of qualifications for a particular project, rather than solely on price factors. The prospective vendor that has the best qualifications is offered the contract, and fee is negotiated.<sup>2</sup> This process is generally used for professional services (see T.C.A. § 12-4-107 concerning the selection of architects and engineers), and cannot be used when competitive sealed bids are required.

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<sup>1</sup> Yuhua Qiao and Glenn Cummings, “*The Use of Qualifications - Base Selection Public Procurement: A survey Research*”, *Journal of Public Procurement*, 2003, Volume 3, Issue 2, 216.

<sup>2</sup> *ibid*, 223.

## The Role of the Purchasing Department

Reference Number: CTAS-922

The role of the purchasing department is—

- To provide all materials, supplies, tools, equipment, and services required for the organization's operations—at the time and place needed in the proper quantity and quality.
- To secure materials, supplies, equipment, and services at the lowest possible cost, consistent with prevailing economic conditions, while establishing and maintaining a reputation for fairness and integrity.
- To furnish members of management with timely information.
- To obtain the greatest possible revenue from the disposal of by-products and of surplus, damaged, scrap, or obsolete materials and equipment.<sup>1</sup>

Public purchasing is regarded as a service function since it relieves the rest of the organization from performing a function that is common to all. Some *additional roles* that the purchasing department performs in support of its objective is to furnish operating departments with the goods and services they need by—

- Building, organizing, and maintaining formal lists of potential suppliers.
- Assisting end users to design, research, and prepare written competitive solicitations and to evaluate the offers received in response to them.
- Ensuring continuity of supply through coordinated planning and scheduling, term contracts, and inventory.
- Assuring the quality of purchased goods and services through standardization, inspection, and contract administration.
- Participating in decisions to make or buy (i.e., contract out for) services.
- Documenting purchasing actions (issuing and monitoring purchase orders) and making pricing and other nonproprietary data reasonably available to those who request it.<sup>2</sup>

The purchasing department buys a vast amount of different goods and services throughout the fiscal year as requested by county departments. These goods and services run the gamut from the purchase of computer equipment, food, motor vehicles, school equipment and supplies, law enforcement supplies, highway construction supplies and equipment, janitorial and office supplies, to professional services.

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<sup>1</sup>National Institute of Governmental Purchasing, *General Public Purchasing*, (Falls Church, VA: 1991), 1-3, 1-5.

<sup>2</sup>Harold E. Fearon, et al., *The Purchasing Handbook*, Fifth Edition, (New York, NY, McGraw-Hill 1992), 823.

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