

Section 16 – Purchasing

Overview

The purchasing function in larger governments is often handled by a central department. Some local governments do not have the resources necessary to fully centralize purchasing therefore it is essential to have proper policies and procedures in place to ensure that purchases are made in the most efficient and economical way possible.

Policy

A government should have a policy regarding purchasing that assigns authority, establishes thresholds, and promotes full and open competition. Such a policy should describe the duties that the department/local government purchasing agent is responsible for, and also develop specific procedures in order to complete those tasks associated with purchasing.

Full and open competition is important because it helps obtain the best value for the taxpayer and prevents corruption in the process. The procedure to ensure full and open competition is the competitive bid process. This process should be specific when outlining the selection criteria however, this process does not necessarily mean that the lowest bidder will always be chosen.

Purchasing Cards

Many governments have implemented a purchasing card program in order to provide an efficient, cost-effective method of purchasing and paying for small-dollar as well as high-volume purchases. This reduces the work load within the finance department due to less purchase orders being issued, as well as a reduction in invoices to be processed for payment.

There are many advantages to the local government implementing a purchasing card program such as:

- Simplified purchasing and payments
- Lower overall transaction processing cost per purchase
- Reduced paperwork
- Increased management information on purchasing histories
- The ability to set control purchasing dollar limits
- Receipt of rebates from the bank based on dollar volume of total purchases
- Better pricing
- Lower risk of non-payment
- Expediting payment of travel expenses

While there are many advantages, the local government should be mindful of the disadvantages as well which include possible duplicate payments to vendors, abuse of

the purchasing card even though internal controls are in place, and also the public's perception of issuing the cards to employees.

The GFOA's recommendation for the implementation of such a program is:

- Competitive bid process should be used to select a purchasing card provider
- Consideration should be given to vendors who can provide automated approval and reconciliation software
- Program should be designed to be simple and easy to use
- Controls need to be maintained and should include:
 - Written agreements with banks
 - Written policies and procedures for the staff
 - Systems to ensure compliance with IRS 1099 reporting regulations.

The above controls should be in compliance with the government's current purchasing policies and procedures.

Prompt Payment

Sections [218.70](#) through [218.80, F.S.](#) outlines the Local Government Prompt Payment Act, which stipulates that all payments for non-construction and construction services must be made in a timely manner, or when payment is due.

Internal Controls

Internal controls over purchases should be designed to ensure compliance with formal or informal competitive purchasing requirements; purchase order approval; recording/eliminating encumbrances; recording purchases in the correct time period with sufficient documentation; and when grant funds are used, documenting it as a proper expenditure. There are potential weaknesses associated with each of the above, and compensating controls should be implemented to address those weaknesses.

The GFOA has published *Evaluating Internal Controls: A Local Government Manager's Guide*. The appendix has a comprehensive outline of objectives, potential weaknesses, compensating controls and other procedures to ensure compliance.

References

Financial Policies: Design and Implementation. Kavanagh, Shayne and Williams, Wright Anderson GFOA (available for purchase from the GFOA at a minimal cost).

GFOA Best Practice - Purchasing Card Programs -
<http://www.gfoa.org/search/node/purchasing%20card>

Evaluating Internal Controls: A Local Government Manager's Guide. Gauthier, S.
Available for purchase from <http://www.gfoa.org/evaluating-internal-controls-local-government-managers-guide-0>