

## **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, promotes full and open competition, which reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded in an equitable manner. 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.

When competitively procuring goods or services, governments should ensure compliance with applicable State laws, including:

- Section [218.391, F.S.](#) - Procedures for selecting the financial statement auditors.
- Section [255.0525\(2\), F.S.](#) - Solicitation of competitive bids or proposals for a construction project.
- Section 255.20, F.S.255.20, F.S. - Requires justification for using local government staff to perform certain construction and electrical projects rather than competitively selecting a vendor for such services and annual reporting of the estimated and actual costs of projects constructed pursuant to this subsection.
- Section [287.055, F.S.](#) - Acquisition of professional architectural, engineering, landscaping architectural, or surveying and mapping services.
- Section 287.057, F.S. – Procurement of commodities or contractual services.
  
- Section [287.05701, F.S.](#) - Prohibition against considering social, political, or ideological interests in government contracting.

Incorporated within a government's purchasing policy and procedures, an agency should adopt and implement the generally accepted values and guiding principles of public

procurement, including but not limited to, accountability, ethics, impartiality, professionalism, service, and transparency.

### **Contractual Services**

Governments are responsible for ensuring implementation of controls that provide for the effective and efficient procurement of contractual services in accordance with applicable Federal and State laws, local ordinances and resolutions, contracts, grant agreements, and policies and procedures.

Contractual service procurements should be supported by written contracts embodying all provisions and conditions of the procurement of such services. Properly written contracts protect contracting party interests, establish the responsibilities of contracting parties, define the services to be performed, and provide a basis for payment. Effective contract monitoring includes procedures to ensure that contractors comply with applicable contract terms and conditions and satisfactory receipt of services is documented before payments are made. It is recommended that purchasing staff, in conjunction with the respective user department when applicable, conduct contract monitoring, throughout the contract lifecycle, to ensure compliance with its agency policies and procedures.

### **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 workload 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, which may increase, based on dollar volume of total purchases.
- Better pricing.
- Lower risk of non-payment.
- Expedited payments for goods and services to small businesses.
- Alternative to petty cash
- Aiding in emergency preparedness
- 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; fraud, waste, or 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:

- A 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.
- The 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.
  - Implementing a training program, to include a training manual.
  - 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. Moreover, periodic monitoring of card usage to ensure compliance with the agency's policies and procedures is crucial to the success of the card program.

### **Prompt Payment**

Sections [218.70](#) through [218.80](#), F.S., outline 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; timely 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).

Using Purchasing Cards to Streamline the Purchasing Process:

<https://www.gfoa.org/materials/purchasing-cards>

NIGP: The Institute for Public Procurement *Global Best Practices*

<https://www.nigp.org/global-best-practices#contract-admin>

[NIGP: The Institute for Public Procurement. \*Values and Guiding Principles of Public Procurement\*](https://www.nigp.org/our-profession/values-and-guiding-principles-of-public-procurement)

<https://www.nigp.org/our-profession/values-and-guiding-principles-of-public-procurement>

*Evaluating Internal Controls: A Local Government Manager's Guide.* Gauthier, S.