

**COUNCIL ACTION FORM**

**SUBJECT: REVIEW OF PREVIOUSLY APPROVED PURCHASING POLICY CHANGES (2003 TO PRESENT) RELATED TO STATE AUDIT REPORT**

**PROPOSED REVISIONS TO PURCHASING POLICIES RELATING TO STATE AUDIT REPORT**

**OTHER PROPOSED REVISIONS TO PURCHASING POLICIES**

**BACKGROUND:**

The City's Purchasing Policies & Procedures manual is divided into two sections. The procedures section is not specifically approved by City Council, but is intended to supplement the policies by providing a "how-to" manual for users. With this separation, procedures can be updated as applicable to reflect software updates and minor procedural changes. Revisions are made periodically as areas that can be improved are identified. A complete review of all of the purchasing policies and procedures is done every two years. The last major revisions were approved in December 2006 for January 1, 2007. The focus of these changes included revisions and clarifications to be compatible with new Iowa Bid Law (Section 6).

**(a) Review of previously approved policy changes, 2003- present relating to State Auditor recommendations:**

Major revisions to the purchasing policies have been approved by City Council within the timeframe of the State Auditor's review (July 2003-January 2008). Recommendation No. 2 in the State Auditor's report is, *Change orders should be approved in accordance with City Council policy and supported by adequate documentation.* Since May 2003, there have been five revisions to the purchasing policies that either clarified or revised the policy relating to contract changes (January 2005, October 2005, January 2007, June 2007, and April 2008). The most significant of those revisions, in June 2007, increased the limits of authority for contract changes to match contract award authority. Additional revisions are proposed to further clarify the policy. These are discussed below.

**(b) Proposed revisions to purchasing policies relating to State Auditor's report:**

A complete review of the policies and procedures began again in December 2008. **This review was begun prior to receipt of the State Auditor's report.** Input was solicited from users as each section was reviewed. The recommendations from the State

Auditor included ensuring that payments are supported by sufficient supporting documentation and retention of documents related to contractual requirements (Recommendation Numbers 1 and 5). The review of policies and procedures included looking at these recommendations in a broad context. As a result, additions and clarifications dealing with documentation and records retention are proposed in numerous sections and would apply to all types of purchasing documents. Recommendation No. 2 regarding change orders was also reviewed as possible improvements in the policy language were considered.

The majority of proposed revisions that relate to the State **Auditor's Report** are in **Section 6 -Bids, Quotations, and Proposals:**

- **A section has been added addressing invoicing requirements** (ref. State Auditor Recommendation 1). This new section requires that all contractors, vendors, and providers of services provide sufficient detail on invoices to determine that the specific work, commodity, or service being billed, that it is within the scope of the contract, and when applicable to document progress status (6.06 H.).

**Forms developed** to document work performed under professional services contracts have been included as Exhibits 19-3 and 19-4 in the new manual, professional services billing documentation forms.

- **A section has been added requiring that departments directly receiving any bids, quotations, and/or proposals** (ref. State Auditor Recommendation 5) address the retention of bids, quotations, and proposals in their respective records retention policies, and retain records in accordance with those policies (6.07 B.). Staff will coordinate this with the Records Retention Team.
- **A section on contract administration has been added** (ref. State Auditor Recommendation 5). The additions state that it is the responsibility of the using department to maintain contract administration records and to document related issues, and that it is the responsibility of the using department to address the retention of contract administration records in their respective records retention policies, and to retain records in accordance with those policies (6.10 B. and C.).

**Forms developed** to assist departments with tracking contract payments and project expenses have been included in the manual as Exhibits 19-5 and 19-6.

- A section has been added concerning **using departments' responsibilities for reviewing and approving invoices** (ref. State Auditor Recommendation 5) for contracted goods and services (6.10 E. through H.).

## **Section 7 - Purchase Order Receiving Report also includes proposed revisions:**

- A section has been added to address **using departments' responsibilities for receiving, reviewing, and approving invoices** (ref. State Auditor Recommendation 1). These additions require that the department ensure:
  - 1) The proposed payment is in accordance with the terms of conditions of the contract/order.
  - 2) The request for payment includes documentation to support the recommended payment.
  - 3) The request for payment is for goods or services as ordered.

This section also states that the department's approval for payment certifies receipt and acceptance of the goods and/or services as ordered (7.03 B. through E.).

**There are corresponding changes proposed in the related procedures sections.** Those "how-to" sections include:

- Discussion that even when contract administration has been contracted to an outside consultant (e.g. a construction contract), the using department is still responsible for administration of that professional services contract. This section includes the provision that in the event an invoice is incorrect or does not have the proper documentation, it is the responsibility of the using department to contact the vendor/contractor and obtain a revised and corrected invoice, additional documentation, or other changes as applicable (19.08 A.).
- Procedures concerning reporting and documentation for emergency and rapid-need purchases are expanded (21.05). This section calls for departments to including documentation of emergency and rapid need purchases in their purchasing records included in their respective records retention policies, to retain these records in accordance with those policies, and to have those records accessible when requested for internal or external audit or under the Iowa Open Records Law. If the cost is \$10,000 or more but less than \$25,000, the report would include efforts to obtain competitive pricing with the responses of all potential vendors who were contacted, and a complete listing of the materials and/or services purchased. If no competitive pricing was obtained, the record would include an analysis of the single price to show it is a reasonable cost and an explanation of why competitive pricing was not obtained. If the cost is \$25,000 or more but less than \$50,000 the using department would also provide the records to the City Manager and obtain additional information or records as directed. If the cost is \$50,000 or more, the using department would provide the report to the City Manager for presentation to the City Council in a format as directed by the City Manager.

**A project planning worksheet** is Exhibit 19-1 in the manual. This worksheet includes project team roles and responsibilities, identification of funding, a checklist for the

bidding process, and identification of potential risks and risk minimization strategies. **A bid project calendar worksheet** is Exhibit 19-2. This worksheet includes steps from initial project planning through the pre-construction meeting.

**(c) Proposed revisions to purchasing policies that are unrelated to the State Auditor's recommendations:**

Suggestions and identification of potential improvements are collected continuously. The review of policies incorporated needs for clarification, new policies to address market changes especially in the area of energy. The review also attempted to maximize the use of Purchasing Division resources including staff time, and identify areas where additional control is advisable.

- **Increase the small purchase, capital, and p-card single transaction limits** from \$1,000 to \$2,500. This is the threshold at which a purchase order is required. Departments may directly purchase goods and services costing less than this amount. Purchasing very rarely adds any value to single transactions at this level. Departments are encouraged to use available State, US Communities, and WSCA contracts for small purchases. Numerous City contracts for commonly used items have also been developed for use by departments. Departments are encouraged to either use these contracts or do sufficient research to verify the value of these small purchases. The last increase in this threshold amount was January 1, 2005, when it was increased from \$500 to \$1,000.
- **Add renewable energy credits and the new element object tuition reimbursement to the list of exceptions to requirement for purchase order.** This section is also expanded to include expenses that were not previously listed because Purchasing is not typically involved in the transactions. These include debt service, insurance claims, rights-of-way and easements, and land. Adding these provides using departments with a complete list that is consistent with accounting and budget information.

Also in this section, the exception for coal is expanded to “non-contract commodity purchases and sales for Electric Services, limited to coal and similar commodities directly used in power generation”. Not all of these items would be excluded from the requirement for competitive bids. Renewable energy credits and energy and ancillary services would be added to exemptions from traditional competitive bidding methods because these cannot be bid in the traditional manner and are purchased directly by Electric Services energy procurement staff.

- **Divide threshold amounts for proposals for professional services between professional services qualified by professional license and those qualified by education, experience, and/or technical ability.** The current amount at which competitive written proposals are required for all professional services is

\$50,000. The threshold amount for those qualified by license would remain at \$50,000. This would include consulting engineers, architects, landscape architects, and public accountants/auditing firms. The threshold amount for those qualified by education, experience, or technical ability would be reduced to \$25,000. This would include services such as equipment inspection and testing and some field services.

- **Discontinue petty cash fund in Purchasing.** Most transactions of this type (under \$25) previously utilizing this program are now paid by procurement card.
- **Revise procurement card application approvals for control** so that no applicant can approve his or her own application. If the applicant is a department head, the application would be approved by the City Manager. If the applicant is the City Manager, the application would be approved by the Director of Finance. Applications for other employees would continue to be approved by their respective department heads, and applications for officials would continue to be approved by City Council.
- **Require filing of a simple Notice of Travel Form approved by the department head prior to out-of-state travel.** While the existing policy requires travel notification to Accounting, the informal methods of notification result in inconsistent compliance. Notification of travel to Accounting triggers monitoring and would also be consistent with a proposed change making the Department Head responsible for compliance with budget.
- **Add to p-card violation types.** Failure to file a completed Travel and Expense Report with procurement card charges within ten working days after returning to work would be a violation of the p-card program policies. The time for submission of the Travel and Expense Report would increase from five business days to ten business days.

**There are only two policy sections with no proposed changes:** Disposal of Surplus Property (Section 12) and Conflict of Interest Policies and Code of Ethics (Section 13).

**Most sections include clarifications.** The majority of these changes are intended to address responsibilities for purchasing related activities and to make the policies more easily interpreted by using departments. **One of the most significant revisions is intended to clarify the policy on contract changes.** While there are no proposed changes to the intent of the policy on contract changes, the section has been extensively revised for clarification.

The Purchasing Division will conduct training and information sessions with employees in using departments to inform them of the revisions and to replace their existing manuals. The policies and procedures are also available on the Purchasing Division Intranet site.

**ALTERNATIVES:**

1. Approve the proposed purchasing policies effective **June 1, 2009**. This delay will allow time for training City staff on the new policies.
2. Do not approve the proposed changes to the City's purchasing policies.

**MANAGER'S RECOMMENDED ACTION:**

These revisions to the City's purchasing policies and procedures respond to recommendations from the State Auditor, clarify responsibilities, increase some controls, and make the policies more easily interpreted by users.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the proposed purchasing policies to become effective June 1, 2009.