Procurement Procedure

**General Background**

As recipients of Federal funds, housing authorities are required by Federal law to be prudent stewards of the public purse, buying only materials or services that are needed, paying the lowest responsible price, and confirming that they obtain value for the public funds they spend.

This procurement procedure sets forth clearly and concisely a way to obtain materials or services so that:

Federal and state rules are followed;

Nothing is ordered unless it is needed and budgeted;

Quality and quantity are described accurately;

The method of procurement promotes competition and a reasonable price;

The materials or services actually received are those the housing authority was seeking.

The Federal regulations governing procurements by housing authorities are found at Title 24 of the Code of Federal Regulations, Part 85.36. These HUD rules implement OMB Circular A-102, which governs all procurements using Federal funds.

In addition to the applicable Federal regulations, the Housing Authority is covered by procurement rules of its State.

In general, when there is a conflict between state and federal rules, the housing authority is bound by the more restrictive provision.

**Procurement Planning:**

Procurement planning is part of the annual budget process. At the site level, the driving force in procurement planning is unit and systems inspections, since nothing short of these inspections will reveal the most urgent matters for which procurements might be needed. Site staff should review the unit inspections and incomplete work orders for the current year to determine whether there are materials, equipment or services that are needed to bring the property to an optimal condition.

Next, the Manager and Maintenance Superintendent must determine roughly what the needed work is likely to cost and compare that cost with the funds available. In public housing, because of the level at which operations are funded, there is almost never enough money available to do all the needed work in a single fiscal year. Instead, once costs are determined for work items, the procurement plan must be prioritized, always keeping aside some funding for emergencies that will, inevitably, arise. Late in the fiscal year unspent emergency funds can be used for lower priority procurements.

A secondary source of information that may be useful in preparing a procurement plan is the record of spending in the most recent past year. The usefulness of this data is proportional to the detail available at the site level. In other words, it is not terribly useful to know the total amount of money spent on maintenance materials at a certain property in FY96, but it is quite valuable to have that total broken down into categories of materials, equipment and services, since that information can then be linked back to the work completed.

Obviously, it is important to coordinate the procurement plan that will be funded through the operating budget with planned modernization activity at each site.

Most housing authorities with site based operations include the approval of the procurement plan as part of the internal approval process in developing the operating budget.

**Procurement Procedures for Sites (Procurements originating with and charged to site budgets)**

Procurement and the approved budget: The specific procurement procedure that must be followed is dictated by the price of the materials, equipment or service to be procured. An over-riding principle of procurement is, however, that no one can authorize spending unless the money is available in an approved budget to pay for whatever is sought.

In a site-based operation, where the Manager controls the budget and authorizes charges against that budget, the Manager is the starting point for all procurements, no matter who finally authorizes them or carries out the required actions.

Procurement Thresholds- Authorization: Subject always to availability of funds, thresholds for procurement approvals involving materials shall be as follows:

Less than $5,000: The Housing Manager or Zone Manager authorizes;

$5001 to $10,000: The Housing Manager recommends and the Zone Manager authorizes;

$10,001 to the Simplified Acquisition Threshold: The Housing Manager recommends, the Zone Manager concurs, and the Director of Operations authorizes;

Over the Simplified Acquisition Threshold: The Housing Manager recommends, the Management Operations Supervisor and Director of Housing Management concur, and the Contracting Officer authorizes.

For procurements to which the capitalization policy applies, that is, procurements of individual items with a value of $350 or more, the procurement is recommended by the Zone Manager and authorized by the Director of Operations.

Technical Description and specifications for procurement: It is the responsibility of the site staff to put together the package of technical specifications that describes the material, equipment or service being procured. When the item or service is relatively simple, e.g. “purchase 15 dead-bolt lock-sets”, “prune all the trees on the development”, site staff may need no assistance from the central procurement department. Staff are advised, however, that even relatively simple items can be complex to specify if an attempt is being made to match things already in use on the site. Since brand names cannot be specified without an “or equal” clause, a detailed technical and performance specification may be needed to assure receiving a matching item.

When the procurement involves major work on buildings’ structures, envelopes or systems, and engineering expertise is needed to prepare the specification, the entire procurement should be referred to the Engineering and Capital Improvements Department. Examples would include elevator maintenance (where the service specification requires technical expertise), replacement of a sewer lateral, or purchase of a cherry picker to work on roofs and site lighting.

Cost and Price Analysis: Just as the over-riding principle of procurement thresholds is that first there must be available budget authority, the over-riding principle of procurement method is that the price must be documented to be reasonable. It must be possible for an auditor to select any procurement at random and find verification in the files that the price paid was reasonable for the item or service received.

Procurement Methods: The method used to ensure that the Authority obtains the best price in each procurement action will depend upon the type and price of the procurement. While the Housing Manager may initiate procurements at any level of expenditures supported by the approved budget and authorized according to the procurement threshold requirements, the role of site staff will vary depending on the value and type of procurement. These methods have nothing to do with the method of procurement accounting, which involves a separate procedure:

Small Purchases (Less than the Simplified Acquisition Threshold) made directly by site staff:

Less than $350: A determination that price is reasonable can be based upon a current catalog reference for the item or service procured. A purchase order is used to set up the account payable in the accounting system;

$350 to $5,000: Three quotes must be obtained for the item or service procured. Telephone quotes may be used, but must be confirmed by fax so there is a written record for the file. A purchase order is used;

$5,001 to Simplified Acquisition Threshold: At least three written proposals (fax proposals are acceptable) must be obtained for the item or service procured. A purchase order is used.

Small Purchases made by site staff against a blanket contract (indefinite quantity contract) procured by the central procurement staff:

Up to the Simplified Acquisition Threshold: Any items or services covered under a blanket, or indefinite quantity, contract have already been determined to be of reasonable price. Only authorization using a purchase requisition, with no further documentation, is needed. A purchase order is not used, since the items are already under contract.

Sealed Bids or Requests for Proposal (Required over the Simplified Acquisition Threshold):

All materials, equipment or services which, in the aggregate, exceed the value of the simplified acquisition threshold shall be procured centrally, since the complexity of the procurement requirements make compliance by site staff cost prohibitive. A contract, rather than a purchase order is used to set up the account payable.

It is a violation of the Federal procurement standards to break up a large procurement into smaller components to avoid sealed bidding.

Internal Controls: Neither the person authorizing or originating a procurement (when these are different people) should be the person who receives the materials or equipment ordered. This is a basic principle of internal control to prevent someone from ordering something for his or her personal use that is paid for by the housing authority.

When there are sufficient site staff, problems can be avoided by having someone other that the person who originated or authorized the procurement receive and review materials for the correct quantity and quality when they are delivered. If the site staff is too small to permit this separation of duties, materials and equipment should be delivered to some independent party who can check the items against the purchase order and assure that if a quantity less than that ordered is received that the account payable reflects the amount actually received and not the amount ordered.

Purchase Requisitions: All procurements should be originated with a Purchase Requisition or PR. In simplest terms, a PR is a formal request to purchase goods, equipment, materials or services. A PR is needed to start to procurement machinery of the Housing Authority and create an obligation, both for a vendor to supply goods, materials, equipment or services and for the Housing Authority to pay for those items.

The purchase requisition is a simple one-page form. Whoever wishes to order something, request materials, or services or purchase equipment describes:

What is to be purchased (a brief description, if a specification is needed, it should be attached);

The amount of money the purchase is expected to cost (be sure that this is the total amount for all the items covered by the PR);

When the item or service is needed;

Whether the procurement is needed to respond to an emergency situation (this is defined as an immediate threat to life, health or safety);

Why the item is needed (if a new item, to upgrade some service, if to be used to repair or replace something, what is to be repaired or replaced);

Where the item will be used (address of specific unit(s) or to restock mini-warehouse, etc.);

Where the item is to be delivered (the main HA warehouse, the site, a specific unit, the office, etc.);

Who is placing the PR (Name and title);

The account to be charged for the purchase;

A blank space for the Purchase Order number when issued.

At the bottom of the PR, is a line for the Housing Manager to sign. The Manager’s signature is more than a simple formality. By signing, the Manager is doing several things:

Agreeing that the purchase is necessary;

Acknowledging that the money is still available in the site budget to pay for the purchase;

Authorizing the cost of the procurement to be deducted from the Manager’s remaining budget authority.

Also included on the PR are lines for the Zone Manager and the Director of Operations to sign if the cost of the PR exceeds the Manager’s threshold authority.

A PR cannot be acted upon until it is completed and signed by the Manager. If the amount covered by the PR exceeds the Manager’s threshold authority, the PR must be forwarded, first to the Zone Manager and then, if needed, to the Director of Operations .

Even if the Manager does not keep other financial records on a accrual basis, it is important to keep records of the PRs approved and not yet charged so the Manager has an accurate picture of the funds still available.

If the work covered by the PR entails engineering, the PR is sent to the Director of Engineering and Capital Improvements. If the cost of the item or service exceeds the simplified acquisitions threshold, the PR is sent to Central Procurement for preparation of the bidding package.

Once the PR is completed and signed by the person with the needed threshold authority, it is forwarded to the individual charged with preparation of Purchase Orders.

Purchase Orders: A Purchase Order, or PO, is a formal document of the housing authority with the force of a contract. Vendors and contractors know that when they receive a PO they can go ahead and provide whatever materials, equipment or services are described and that they will be paid by the housing authority.

POs, since they are obligations of the housing agency, must be carefully controlled. They are sequentially numbered, are used to set up accounts payable, and are tracked from the point when they are issued, through when the goods or services are received, until they are paid.

Most PHAs with site-based management have a way to code POs that will be charged to site budgets differently from those that will be charged to central operations or headquarters cost centers. This makes both the accounting and the budget tracking easier.

Contracts: When a purchase exceeds the simple acquisition threshold, sealed bids are required to complete the purchase. Construction contracts, authority wide purchases of materials, supplies and equipment and major maintenance contracts (e.g. elevators) are often procured through the sealed bid method and obligated by contract rather than purchase order.

The central procurement operation handles sealed bid procurements because the process is technically demanding and time-consuming unless performed by people who are familiar with it.

Blanket or Indefinite Quantity Contracts: One procurement method that offers the best features of the sealed bid and simple procurement method is the blanket or indefinite quantity contact. Under this method, the central procurement office issues Invitations for Vendors to bid on specified materials, equipment and services. The bids are based on unit prices and the amounts of goods or services are not specified in the contract. Note, however, that the IQC has a life of only one or two years and cannot exceed a pre-established dollar amount. Central procurement enters into contracts with various bidders who offer the best prices and terms. Blanket or IQC contracts can cover such materials as:

Refrigerators, ranges, appliance parts, range hoods;

Commodes, vanities, lavatories, tanks, lids, wax seals, medicine cabinets, legs;

Tile, grout, mastic, cement and sealant;

Faucets, traps, valves, pipe, seats, seals, diverters and other plumbing supplies;

Receptacles, light fixtures, switches, circuit breakers, boxes, connectors, wire, cable, conduit, and other electrical supplies;

Furnaces, boilers, filters, ductwork, radiators, baseboard units, water heaters, and other heating and water heating supplies;

Fans, motors, air handlers, chillers, compressors, filters and other ventilating and air conditioning supplies;

Flooring (vinyl tile and sheetgoods, wood, terrazzo), mastic, cove base, carpet, underlayment, and other flooring supplies;

Drywall, tape, spackle and other supplies for repair of walls and ceilings;

Interior and exterior glossy, semigloss and flat paint and other coverings;

Locksets, hinges, bolts, doorstops, kickplates, strikeplates, cabinet and closet hardware, thresholds, nails, nuts, screws, bolts, and other hardware and fasteners;

Exterior doors, storm doors and interior doors of all types and sizes;

Windows, storm windows, glass and screens of all types and sizes;

Base and wall cabinets, countertops, drawers, shelves, doors and sinks;

Lumber (rough and finish), interior and exterior plywood, fascia, trim, shelving, hand-rails and other wood items;

Shingles, tar paper, roofing felt, hot mix and other materials for roofing repair;

Batt and blown insulation, expandable foam, caulk, weatherstripping and other weatherization products;

Fencing, handrails, clothes poles and other exterior iron and metal-work;

Cement, sand, gravel, asphalt, and other materials for sidewalk and road repair;

Trees, bushes, shrubs, sod, seed, plugs, plants, bulbs, topsoil, peat moss and

other landscaping supplies;

Cleaning supplies;

Extermination supplies;

Hand tools and power tools;

Maintenance equipment;

Office, community room and lobby furniture;

Copiers, fax machines, modems, computer hardware and software

In addition, housing authorities often have blanket or indefinite quantity contracts that cover the following services:

Cleaning vacant units (priced by unit size);

Painting (vacant or occupied units, common areas);

Flooring repairs (including materials, priced by square foot);

Roofing repairs (including materials, priced by square foot);

Landscaping, yard maintenance and snow removal (priced by specific task and frequency);

Elevator maintenance (per elevator, annually with hourly rate for skilled personnel:);

Extermination (priced by number of units and frequency);

Applicant screening (per applicant);

Major plumbing work (including materials, priced by job with hourly rate

for skilled personnel);

Boiler maintenance (per boiler, per year)

The advantages of blanket contracts are particularly appreciated in an agency with site based management. First, the site staff need not go through the process of obtaining quotes, since the blanket contract has already assured that the per item price is reasonable. Only a PR is needed to draw materials and services against the IQC. The vendor guarantees delivery of the items covered by the contract in a very short time, typically 48 hours.

Another advantage of the IQC is that only a small amount of warehouse space is needed to store very small quantities of materials in common use. The vendor maintains the inventory and warehouses the materials until they are needed by the site. This cuts down on space needed for warehousing, reduces the amount of materials subject to pilferage and ties up less of the Manager’s budget in inventory. The Manager’s budget is charged for items only when they are received at the site.

From a financial and accounting point of view, cutting down on inventory is highly desirable. Materials ordered by a Manager (and charged to the Manager’s budget) should be in one of two places: in a unit (as tracked through a work order) or in the mini-warehouse.

Tracking Procurement actions: The final step in the procurement procedure is, in many ways, the most important because it ensures that The PHA and its residents receive real value for the materials or services procured. Primary responsibility for tracking procurements that originate at a site is the Housing Manager’s. As part of the monthly financial review, a Housing Manager should review the items and services ordered and received during the month, both to ensure that purchase requisitions result in materials received or work performed, and that the quality of the items or services is acceptable. In effect, it is the Manager’s duty to ensure that the development has received good value for the funds spent and to consider whether some other approach might be a better investment.

Finally, because certain items ordered might not be in stock, the Manager must track purchase orders that remain open. The Manager’s budget is not billed until the PO is closed, but failing to track open POs can give the Manager a false picture of fund availability. In accounting terms, an open PO is an accrued liability even though the financial reports (which are based on cash accounting) will not show the funds encumbered.