

PURCHASING POLICY
AND
PROCEDURES

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INTRODUCTION

Money, people and goods are the three resources that are essential to the operation of an organization or a corporation, irrespective of whether it is part of the private or public sector. The purpose of the policy is to outline the effective management of one of those resources -- the purchase of goods and services at Catfish Creek Conservation Authority.

As much as .30 to .50 cents out of every dollar expended for current operations is in the form of purchased goods and services. The impact of lowering the cost of purchased goods and services by a mere 5% to 10% through overall cost reductions and improved materials can therefore substantially reduce or contain Authorities operational costs.

This matter was recognized by the Members of Catfish Creek Conservation Authority and has been addressed in the following Purchasing Policy.

APPROACH TO PURCHASING

In its broadest context, purchasing is concerned with the acquisition of all goods and services beyond those provided directly by employees of an organization. In a Conservation Authority, as in any organization, this embraces the purchasing of materials, supplies, equipment, furniture and all services performed under contract, whether for construction of new public works or provision of services in connection with its regular operations.

The function of purchasing exists therefore in every organization, whether it be small or large.

One approach is to place the actual buying process in the hands of an individual in each of the user departments, who handles purchasing as part of the overall duties. Formal financial control is exercised through a purchase order system with the audit and payment of invoices handled by the Secretary-Treasurer.

SCOPE OF THE PURCHASING FUNCTION

The purpose of the purchasing function is to produce the required goods and services in a manner that will result in maximum value for the tax dollars expended. More specifically, this means that goods and services should be purchased in the proper quantity, of the desired quality, that arrives at the proper time and at the lowest possible ultimate cost.

Most professional purchasing agents recognize that the lowest possible ultimate cost is the main criterion to go by when purchasing goods, equipment or services. Quality and services are as important as price. Prompt delivery and good price are not enough if a product's quality is inferior or the service is poor.

In recent years many purchasing agents have adopted the technique of life-cycle costing to determine the total ultimate cost of goods and services, particularly with reference to equipment. This technique evaluates the total cost of acquiring goods and owning equipment by taking into

consideration, maintenance, operating and energy costs as well as the impact of productivity performance and where applicable, trade-in or recovery value upon disposal.

The purchasing process itself includes all the steps associated with the acquisition of goods and services from the time a need is identified, until the goods are received and approved for use, or the service is performed. The degree of formality and procedural detail may vary from item to item, but each purchase goes through the following typical cycle:

- specifications
- the requisition
- source selection, and/or advertising
- quoting
- bidding and tendering
- bid analysis
- issuance of purchase order
- follow up or expediting
- receipt of goods or services
- inspection
- invoice audit and payment

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Additionally, the purchasing process should include stores and inventory control as well as the responsibility of the disposition of scrap, obsolete or surplus inventory.

It is not sufficient that goods and services merely be purchased; in today's environment of scarce financial resources, purchasing involves much more than simply processing orders. The purchasing function has a key role to play in reducing costs so that the pressure on operational cost will be lessened. Techniques to achieve this end will be described throughout this Policy and Procedure Manual.

PURCHASING POLICY

January 1987

P O L I C Y

RESPONSIBILITIES AND DUTIESManagement

- 1) The Secretary-Treasurer shall be responsible for the management, organization and administration of purchasing functions, under the direction of the General Manager and must be in accordance with budgetary provisions and Authority policies.
- 2) The Secretary-Treasurer shall be responsible for making recommendations concerning the implementation of sound purchasing procedures and practices.
- 3) The Secretary-Treasurer shall, wherever possible, promote and coordinate standardization of goods with heads of departments.
- 4) The Secretary-Treasurer shall from time to time request and receive from department heads of the Authority list of goods that are surplus or obsolete, and if no longer useful to the Authority, arrange for their disposal in the way he/she deems to be in the best interest of the Authority. If disposal value is greater than \$250.00, Full Authority approval is necessary.

Department Heads

- 1) Each department head shall be responsible for the procurement, storage and distribution of all materials, equipment, supplies and services on behalf of the Authority; such goods and services to be procured at the lowest ultimate cost with due consideration to the importance of quality, service and price and in accordance with the approved policies and budgetary considerations.

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- 2) Each department head shall be responsible and accountable for monitoring an effective inventory control system with the objective of keeping the inventory at the minimum but at an

adequate level to support and supply the projects in progress.

- 3) Each department head shall be responsible for all vendor contacts, maintaining good business relations, and the conduct of negotiations with vendors.
- 4) Each department head shall be responsible for the issuing of all tender calls and specification preparation.

Limitations and Conditions

- 1) All department heads shall conduct the purchases of goods and services on a competitive basis, in keeping with accepted public purchasing practices and procedures, Ministry of Natural Resources and Authority policies.
- 2) No goods shall be ordered that have not been provided for in the budgets for each department, unless authorized by the General Manager and/or Full Authority.
- 3) The department heads may purchase or contract for goods and services subject to the following limitations and conditions:
 - a) On purchases not exceeding an amount of \$1,000.00, the department heads may order on their own authority from such suppliers and upon such terms and conditions that in their judgement are beneficial and within budgetary conditions of the Authority.

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- b) On purchases of \$1,000.00 or more but not exceeding an amount of \$5,000.00 from such supplier and upon such terms and conditions, that shall deem advisable after inviting one written or verbal quotation from at least three suppliers and approved by the General Manager.
 - c) On purchases of \$5,000.00 or more but not exceeding an amount of \$10,000.00 from such suppliers and upon such terms and conditions that shall deem advisable after inviting one written quotation from at least three suppliers and approved by the General Manager in

consultation with the Personnel/Finance Chairperson or the Full Authority Chairperson.

- d) On purchases that exceed \$10,000.00, after calling for tenders to be submitted in sealed tender by advertising in a local newspaper and inviting tenders from potential suppliers in accordance with the established tender procedure and approval of Full Authority.
- 4) Any recommendation to award will be to a bidder meeting specifications, terms and conditions of the tender and whose tender offers the lowest possible ultimate cost to the Authority for the goods, equipment or services being tendered with due consideration of the importance of quality, service and price. If tender price is higher than Authority's expectations new specifications will be prepared, and original bidders only will be asked to resubmit tenders.
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- 5) Where an emergency occurs that in the opinion of the General Manager or his designate constitutes an imminent danger to life or property and requires the immediate procurement of goods and services, the General Manager may purchase such goods and services by open-market procedure at the lowest obtainable price regardless of the amount of expenditure. Before such purchase has been made, the Chairperson or Vice-Chairperson must be contacted.
- 6) No purchases shall be made from any Member of the Authority or Employee of the Authority or their immediate family or from any other source that would result in a conflict of interest.
- 7) No purchase orders shall be issued for personal items for the employees or Members of the Authority, except where purchased for the use and benefit of the Authority.
- 8) An employee or Member of the Authority is expressly prohibited from accepting, directly or indirectly, from any person, company or corporation to which any purchase or contract is, or might be awarded, any rebate, gift, money or anything of value whatsoever, except where given for the use and benefit of the Authority.

PURCHASING PROCEDURES

January 1987

Procedures

As suggested in "Approach to Purchasing" general statement, purchasing of goods and services will be placed in the hands of individuals, in each department, who will handle purchasing as part of overall duties, and via purchase requisitions and purchase orders.

Purchases of \$500.00 and under

No purchase order is required for total purchases of \$500.00 and under, subject to the discretion of the department head.

Cash Purchases

Such purchases shall be kept to a minimum and only in approved areas of budget responsibility. When necessary, cash purchases are to be limited to \$10.00 and a counter receipt is to be secured (bearing the store's name) and promptly turned into the petty cashier for reimbursement. Such receipts are to be clearly marked as to the item, cost and project name and signed by the employee. (Appendices 8, 9, 10).

Non-Cash Purchases (\$500.00 and under)

Such purchases are normally of a pick-up, over the counter nature. Sales slips for such charge sales are again to be clearly marked as to goods and prices and the employee must sign same at the supplier's business. An employee is to obtain a copy of the sales receipt bearing the project name and it is to be promptly given to the Secretary-Treasurer, after obtaining the signature of the department head on the sale invoice.

Purchases of \$500.00 to \$1,000.00 (inclusive)

A purchase order, properly authorized, is required by the department heads.

A supply of numbered purchase orders will be retained by the Secretary-Treasurer. When required the Department Head will request a purchase order from the Secretary-Treasurer, complete it immediately and distribute the copies as set out below. This will insure that purchases are entered into books regularly and related accounts are encumbered accordingly.

To issue a purchase order, each department head will complete the purchase order form containing such information as:

- 1) date
- 2) name and address of supplier
- 3) item ordered
- 4) price of item ordered (per unit)
- 5) applicable taxes (GST & PST)
- 6) date item required
- 7) project name
- 8) authorizing signature

October/89

Distribution of copies is as follows:

- Copy 1 - the original copy is sent to the supplier as a request to purchase, as authority to ship the merchandise listed, or for confirmation of phone ordered items.
- Copy 2 - is sent to accounting (Secretary-Treasurer) where it will ultimately be used in approving the invoice for payment.

Copy 3 - is retained on file by the department issuing the purchase order

Purchases of \$1,000.00 to \$5,000.00 (inclusive):

Purchases in this category will require department heads to complete a purchase requisition, containing same information as in purchase order form described earlier and must be accompanied by Quotation Comparison sheet (Appendix 3), containing quotations from at least three suppliers (written quotations to be attached) and countersigned by the General Manager. In this category, purchase order will only be issued by the accounting department (Secretary-Treasurer), upon receiving fully authorized purchase requisition. Upon issuing a purchase order the following will be distribution of copies:

- Copy 1 - the original copy will be sent to the supplier
- Copy 2 - will be retained by the accounting department
- Copy 3 - will be sent to department issuing purchase requisition to acknowledge the requisition and tell the action taken.

Purchases of \$5,000.00 to \$10,000.00 (inclusive)

Purchases in this category will require departments heads to complete a purchase requisition, containing same information as in purchase order form described earlier and must be accompanied by Quotation Comparison sheet (Appendix 3), containing written quotations from at least three suppliers and countersigned by the General Manager in consultation with the Personnel/Finance Committee Chairperson or the Full Authority Chairperson.

Purchase orders will then be issued by the accounting department (Secretary-Treasurer) and follow the same procedures as in purchases of \$1,000.00 to \$5,000.00.

Purchases of \$10,000.00 and over

Purchases in this category will require preparation of specifications (in detail) and be approved by the General Manager, and further same to be approved by the Full Authority.

With permission by the Full Authority, staff will publicly tender the purchase in the local newspapers or elsewhere as directed by the Full Authority. Upon receipt of sealed tenders, the Tender Liaison Members General Manager and department head, will open and review the tenders and make a recommendation to the Full Authority, unless otherwise directed by the Full Authority.

When a tender has been awarded, purchase orders will then be issued by the accounting department (Secretary-Treasurer) and follow the same procedures as in purchases of \$1,000.00 to \$5,000.00

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CAPITAL ACQUISITIONS AND CONTRACTSGeneral

- 1) Project must have approval under both Section 24 (technical Minister's approval) and Section 39 (funding) of Conservation Authority Act, 1980 and Budget funding.

- 2) Full Authority approval required.
- 3) Special direct benefitting projects require municipal resolution approving the project and their portion of cost.
- 4) Construction and engineering type projects will require an enforceable contract, and will be subject to policies regarding quotations and tendering.

Land Acquisition

- 1) Purchase price cannot exceed appraised value.
- 2) An appraisal or update must be obtained, if purchase price will exceed \$10,000.00.
- 3) An option to purchase or purchase agreement form must be secured and duly executed (Appendices 4 & 5).

Procedure - (further reference to MNR - Policy & Procedure Manual)

- Report on property to Full Authority and obtain approval to carry out an appraisal and obtain option to purchase.
 - Secure option or purchase agreement, conditional upon Ministry of Natural Resources and Catfish Creek Conservation Authority approval. When all approvals are received, file for a "Certificate of Approval for Land Acquisition" form (Appendix 6).
- Jan/87
- Secure approval of Full Authority to exercise option or purchase agreement.
 - Commission a survey, as necessary.
 - Send details to Catfish Creek Conservation Authority lawyer with instructions to carry out title search and commence closing.
 - Upon receipt of deed and certificate of title, forward copy of same to Ministry of Natural Resources district office for land assembly purpose.

CONSTRUCTION AND ENGINEERING PROJECTSTendering

Such project must be tendered in accordance with the tendering procedure as outlined below.

Procedure

- 1) Prepare tender documents and approved project terms of reference/specifications.
- 2) Advertise in local newspapers (Aylmer Express, St.Thomas Times- Journal and London Free Press).
- 3) Set tender date.
- 4) Secure tender documents deposit when tender picked up. Issue receipt and retain deposit and one copy of receipt (Note 1).
- 5) Return documents deposit when they are returned and note on file copy of receipt returned.
- 6) Record tenders received in register (Note 2) and be sure tender deposit is enclosed (Note 4) (Appendix 7).
- 7) Open and review tenders for final approval by the Full Authority.(Note 3).
- 8) Prepare and execute contract or engineering agreement (2 copies - one to contractor/consultant and one for project file) (legal - original).

Note: Ensure all documents are in hand, namely:

- performance bond
- Workmen's Compensation clearance certificate
- Cross liability insurance
- labour and materials bond

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- 9) Approve and issue work - change orders as required and authorized.
- 10) Progress certificates (invoices) received and paid.

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Note: Contract progress payment certificates must be approved and signed by department head prior to being processed for payment.

- 11) Final payment upon completion of work.
- 12) Release of holdback (10% of total project cost).

Note 1 - Tenderers are required to place a deposit of \$50.00 for tender documents. This will be returned when documents are returned.

Note 2 - Tenders must be sealed and contain an agreement to bond form from a bonding company, prices clearly stated and totalled, executed under seal or witness by the tendering company or individual.

Note 3 - Prior to awarding of contract, approval of the Full Authority is required.

Note 4 - Each tender returned must contain TENDER DEPOSIT, via certified cheque, cash or money order. Bid bonds are not acceptable. Amount of tender deposit, per Ministry of Natural Resources policy are as follows:

<u>Tender</u>		<u>Minimum Deposit</u>
\$ 0.00 - \$ 20,000.00		\$ 500.00
20,000.00 - 50,000.00		1,000.00
50,000.00 - 100,000.00		2,000.00
100,000.00 - 250,000.00		9,000.00
250,000.00 - 500,000.00		19,000.00
500,000.00 - 1,000,000.00		40,000.00
1,000,000.00 - 2,000,000.00		75,000.00
2,000,000.00 - and over		150,000.00

FIXED ASSET CONTROL SYSTEM

Definition

A fixed asset may be described as any asset having a useful life for longer than one account period (one year) and is used in production or sale of other assets.

Purpose

The availability of fixed asset records, which are both accurate and up to date, provides substantial benefits to the Authority in the following general areas:

1) Physical Control and Safeguarding

In order to have physical control of fixed assets, proper record keeping is essential. At any time, it is important to know where the fixed asset is physically located and, where applicable, to whom it has been assigned. This assists in assuring effective utilization and prevention of loss by carelessness or theft.

2) Insurance Coverage

Proper record keeping assists in assuring that fixed assets are covered by insurance, that the coverage is adequate and that there is a routine periodic review of the insurance coverage.

3) Acquisition, Maintenance, Replacement and Disposal

Proper record keeping also assists in determining how effectively the asset is being maintained and utilized and in establishing preventative maintenance requirements. The effective utilization is partly identified by the "Status -- Active/Inactive" identifier on the

records. With this information, a program of acquisition, replacement and disposal can be established and integrated with the current, short term and long term capital budgets and long term planning strategies. The Authority must, as an example, be aware and plan for the replacement of major pieces of equipment which will occur within the next five or more years.

4) Cost Accounting

With proper information, the Authority can more accurately determine the actual cost of specific items.

Types of Fixed Assets

Types of assets, each with its own particular requirements for information, will include the following:

- 1) land, including easements, roads and bridges
- 2) park or recreational land, including roads and bridges
- 3) buildings
- 4) underground services - water pipes, hydro wires, septic tanks etc.
- 5) aboveground services - lighting, hydro panels, playground equipment, etc.
- 6) furniture and furnishings - picnic tables, etc.
- 7) office equipment
- 8) motor vehicles
- 9) mobile equipment
- 10) stationary equipment
- 11) tools and portable equipment

Physical Control Features:

Having established the appropriate record keeping, there arises the obvious control feature and physical inventory and reconciliation to the fixed asset records. The frequency for physical inventory will be spread throughout the year on the cyclical basis as follows:

<u>February</u>	1) office equipment and furniture
prior to <u>April 15</u>	1) outdoor furnishings
	2) mobile equipment
	3) stationary equipment
	4) motor vehicles
	5) tools and portable equipment
	6) underground services
	7) aboveground services
prior to <u>November 15</u>	1) mobile equipment
	2) stationary equipment
	3) tools and portable equipment
	4) outdoor furnishings
prior to <u>December 15</u>	1) lands - park and recreational
	2) buildings

There is the need for each type of asset to be identified so it can be physically counted and verified to the supporting records. For many assets, the identifier is obvious, for example;

- provincial licenses for motor vehicles and mobile equipment
- model numbers and serial numbers permanently affixed by the manufacturer for motor vehicles, mobile equipment, power tool and office equipment
- assessment roll numbers or street addresses for land and buildings

For assets such as office furniture and small tools, there are generally no identifying numbers affixed by the manufacturer. For these assets, record location only and disregard identifier numbers. For other assets such as above and below ground services, the identifier which becomes less obvious, will include the following:

- maps
- map location

Determination of Cost

One of the arguments used against the implementation of fixed asset accounting, is the lack of cost data for assets particularly those acquired more than five or ten years ago.

Rather than abandoning the determination of costs for fixed assets because of lack of cost data, you may use any of the following acceptable alternatives:

- 1) independent appraisal
- 2) amount on the assessment roll for land or buildings
- 3) replacement cost
- 4) best estimate

To meet the purposes intended, there is no need to be concerned with exact cost or value since the actual cost of an asset purchased 20 years ago would be stated on the basis of historical cost, and virtually meaningless today.

To facilitate the evaluation process and the establishment of an up to date starting inventory, the following dollar cut-off values will be used:

- 1) lands - ALL
- 2) parks and recreational lands - ALL
- 3) buildings - ALL
- 4) underground services - \$100.00
- 5) aboveground services - \$100.00
- 6) furniture or furnishings - \$100.00
- 7) office equipment - \$50.00
- 8) motor vehicles - ALL
- 9) mobile equipment - ALL
- 10) stationary equipment - \$100.00
- 11) tools (sets) and portable equipment - \$50.00

Items below the cut-off value will be only listed on a separate sheet.

Implementation Plan

While the implementation of a complete fixed asset record keeping system is an enormous task, it is important to at least make a start through the phase-in approach. The following will be the implementation steps:

- 1) set-up complete fixed asset records for all new acquisitions or as of January 1, 1986,
- 2) set-up fixed asset records with data other than purchase and cost data, and
- 3) record purchase and cost data or the best available information as time permits.

THE PETTY CASH FUND

Principle - A basic principle in controlling cash disbursements is that all such disbursements be made by cheque. However an exception to this rule is made for petty cash disbursements because every business must make small payments for items such as postage, express charges, collect telegrams and small items of supplies. If each payment is made by cheque, many cheques for immaterial amounts are written, which is both time consuming and expensive. Therefore, to avoid writing cheques for small amounts, a petty cash fund is established, and such payments are made from this fund.

Mechanics of - When a petty cash fund is established, an estimate is made of total small payments likely to be disbursed during a short period, usually not more than a month. A cheque is drawn for an amount slightly in excess of this estimate; the cheque is cashed; and the money is turned over to a member of the office who is designated PETTY CASHIER and who is responsible for the petty cash and making payment therefrom.

The petty cashier will keep the petty cash in a locked box in the office. As each disbursement is made, a Petty Cash Receipt (illustration enclosed) is signed by the person receiving payment and is entered in the Petty Cash Record (illustration enclosed) and then placed in the petty cash box with the remaining money. Under this system, a petty cash box should always contain petty cash receipts and money equal to the amount of the fund.

Each disbursement reduces the money and increases the sum of receipts in the petty cash box. To reimburse the fund, the petty cashier presents

the receipts for petty cash payments to the Secretary-Treasurer, who stamps each receipt "paid" so that it may not be used, retains the receipts, and gives the petty cashier a cheque for their sum. When this cheque is cashed and the proceeds returned to the petty cash box, the money in the box is restored to its original amount and the fund is ready to begin anew the cycle of its operations.

PETTY CASH RECORD

Date	Explanation	Receipt No.	Receipts	Payments
May 1	Established Fund (chq. #00)		\$ 50.00
2	xxxxxxxxxxxx	1		xxxxx
14	xxxxxxxxxxxx	2		xxxxx
19	xxxxxxxxxxxx	3		xxxxx
22	xxxxxxxxxxxx	4		xxxxx
31	Total		\$ 50.00	\$xxxx
	Balance of Cash			xxxxx
	Total		\$ 50.00	\$ 50.00
31	Balance of Cash		x.xx	
31	Replenished Fund (chq. #00)		xx.xx	
31	TOTAL OF FUND		\$ 50.00	