

CITY OF HOUSTON

EXECUTIVE ORDER

SUBJECT: PROCUREMENT AND PAYMENT POLICIES	E. O. No. 1-14 (Revised)
	Effective Date: April 1, 2010

1. PURPOSE

To establish policies governing the procurement and payment processes with related internal controls.

2. OBJECTIVES

To provide an efficient procurement process for acquiring goods or services needed by City of Houston employees.

To provide effective internal controls for the purchase, receipt, and payment of goods and/or services by the City of Houston.

3. DEFINITIONS

Contract - An agreement between the City and a supplier/contractor for goods and/or services to be provided to the City of Houston at an agreed rate/price; includes binding terms and conditions that govern each purchase order/change order issued by the City for contract goods and/or services.

Purchase Order - A document creating a binding contract between the City and a supplier/contractor for contract or non-contract goods and/or services to be provided to the City for a certain price; includes binding terms and conditions; and countersigned by the Mayor, City Purchasing Agent and City Controller.

Contract Items - Goods and/or services procured in accordance with a contract for said goods and/or services.

Non-Contract Items - Goods and/or services procured that are not governed by a contract.

Formal Bid Requirement - The dollar threshold established by State Law requiring procurement through competitive sealed bids or proposal. Current law sets this threshold at more than \$50,000.

Capital Equipment - Physical asset costing currently \$5,000 or more, with an economic useful life of one year or more; does not include items or parts that merely prolong the useful life of another asset.

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Change Order - A document modifying information concerning goods and/or services, price, and/or quantities in an existing contract/purchase order; if the total amount of the contract/purchase order is increased by the change order, the change order may require approval by a different authority than that used to approve the contract/purchase order and/or previous change orders. The total of all change orders cannot exceed 25% of the original contract/purchase order amount.

Department Purchasing - An organization responsible for purchasing functions within a City department as designated by the department director.

Council Approval Threshold - The expenditure level requiring City Council approval as established by the City Charter is equal to or greater than the State bid law requirement.

Bid-Splitting - Intentional splitting of a single purchase into smaller purchases to avoid formal bidding as required by the Texas Local Government Code; using several purchase orders during a twelve-month period to procure items that should be included in a single purchase which would be within the State bid law requirement.

Emergency - Circumstances that require action by an administrative official or City Council to obtain goods and/or services through other than the formal bidding procedures required by the Texas Local Government Code; includes the following conditions described in that Code:

- A public calamity that requires the immediate appropriation of money to meet the needs of the City's residents or to preserve the property of the City.
- A threat to the public health or safety of the City's residents, or
- An occurrence of unforeseen damage to public machinery, equipment or property.

Emergency Purchase Order (EPO) - A purchase order for non-contract goods and/or services that must be issued to address emergency conditions as defined herein; EPOs that exceed the department's spending authority shall be issued by the City Purchasing Agent or designee; EPO's that are equal to or greater than the State bid law requirement, shall be submitted subsequently to the City Council for approval.

Item Specific Purchase Order - A purchase order which identifies specific items and not simply "miscellaneous" or "lot"; excludes items which cannot be specified prior to the purchase order issuance.

Petty Cash Funds - City of Houston funds, which are issued to City employees for expenditures related to City business; governed by Administrative Procedure 5-3.

Purchasing Card - A charge card issued to City employees for expenditures related to City Business; governed by Executive Order 1-42.

Invoice - An itemized bill for goods and/or services from a City supplier.

Purchasing Function - Originating, validating, and approving purchase orders/change orders, includes product sourcing, bidding, tabulation of bids, data entry and approval of computerized requisitions and purchase orders.

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Receiving Function - Physically receiving goods and/or services from a City supplier authorized by a purchase order or contract; includes accepting and acknowledging receipt and data entry and approval of computerized receiving documents.

Paying Function - Accepting, reviewing and approving invoices for further processing or payment; includes data entry of invoices/payment vouchers and approval of computerized payment records as required.

4. SCOPE

This policy directive is applicable to all City departments and personnel as it relates to their procurement, receiving and payment activities.

5. RESPONSIBILITIES

(a) It is the responsibility of the Strategic Purchasing Division of the Administration and Regulatory Affairs Department to:

- (1) Provide managerial oversight and conduct periodic management reviews of the procurement and receiving process and related systems to promote effectiveness and ensure overall compliance with policies and procedures. Review and approve departmental procedures and policies pertaining to segregation of duties for purchasing, receiving, and paying functions.
 - Ensure that departments are issuing POs for contract items to the approved contract suppliers, using proper bidding procedures in issuing POs equal to or greater than the State bid law requirement for non-contract items and complying with the Texas Local Government Code pertaining to bid splitting.
 - Report instances of violations of this policy to the responsible department head.
- (2) Approve changes in specific department's purchasing authority based upon review of departmental compliance with State law, City charter and City ordinances.
- (3) Develop and maintain specific procedures whereby this order and the policies contained herein may be followed and enforced in accordance with Administrative Procedure 5-2 and the issuance of Procurement Guidelines as required.
- (4) Process Emergency Purchase Orders (EPOs) as defined herein:
 - Review all emergency purchases as defined in this policy to ensure that an emergency condition exists based upon the justification provided and warrants the issuance of an EPO.
 - Process all EPO requests from departments that are greater than the department's spending authority.

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- Determine the appropriate method of approving an EPO, submitting them for City Council approval if such approval can be obtained in sufficient time to address the emergency condition.
- Prepare all Requests for Council Action to approve payment of the emergency purchase orders at the current City Council approval threshold or above, within thirty days after receipt of goods and/or services or receipt of a valid invoice, whichever is later.

(5) Process other purchases as follows:

- Review and approve for processing all requisitions that exceed the department's Purchase Order approval limit.
- Review and approve change orders that increase a departmental purchase order to greater than the department's spending authority.
- Prepare Requests for Council Action to approve purchase orders for non-contract goods and/or services requiring City Council approval.

(6) Administer a Purchasing Card Program according to Executive Order 1-42 and any other policies and procedures pertaining to the use of credit cards by City employees.

(7) Streamline and administer purchasing and receiving procedures:

- To conform to State law, City charter and ordinances.
- To assist departments in procuring goods and/or services and resolving disputes with suppliers in a timely manner.

(8) Establish contracts for goods and/or services with assistance from operating departments to facilitate the purchasing process.

(9) Determine circumstances under which a supplier is not performing in accordance with contract terms and conditions and authorize purchases of goods and/or services from alternative sources.

(b) It is the responsibility of the Controller's Office to:

(1) Certify that funds are available for individual purchase orders/change orders, currently accomplished through electronic verification.

(2) Ensure that checks for payment of goods and/or services are issued to suppliers in a timely manner.

(c) It is the responsibility of each department to:

(1) Establish the proper segregation of duties among personnel performing purchasing, paying and receiving functions as required in this order.

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- (2) Approve all requisitions for goods and/or services charged to the department's budget.
- (3) Ensure that goods and/or services are not authorized and received from suppliers by the department's employees until proper purchasing approval has been obtained.
- (4) Determine that goods and/or services are received in accordance with the terms and conditions of the purchase order or contract.
- (5) Direct supplier to send invoices to the appropriate City official for payment.
- (6) Determine whether invoices from suppliers are complete, accurate, and valid.
- (7) Approve all appropriate payments against purchase orders charged to the department's budget.
- (8) Respond to emergency conditions immediately by issuing emergency purchase orders within the department's spending authority or refer/forward to the Strategic Purchasing Division for review/approval.
- (9) Ensure that payments against Emergency Purchase Orders are not processed or paid prior to approval by City Council, if the purchase is within the City Council approval authority.

6. POLICY

(a) PURCHASING POLICY

- (1) The total of each Petty Cash fund purchase shall not exceed the petty cash limit established by Administrative Procedure 5-3, currently \$100, and may not be utilized for contract items.
- (2) City departments may utilize Purchasing Cards for the procurement of goods and/or services in accordance with the policies established under Executive Order 1-42 or subsequent Executive Order or Administrative Procedure.
- (3) All purchase orders for goods and/or services covered by approved contracts shall be issued to the contract supplier unless authorized by the City Purchasing Agent to procure contract goods and/or services from an alternative source.
- (4) City departments may issue POs for goods and/or services that are greater than the Petty Cash limit and up to their departmental spending authority as set by the City Purchasing Agent.
- (5) Individual City departments may be authorized to issue POs for non-contract items less than the State bid law requirement, and for contract items in an amount limited only by the departmental contract allocation provided that:
 - The department prepares a management plan that demonstrates compliance with all provisions of this order, and the plan is approved by the City Purchasing Agent.

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- The department designates a single authority to coordinate and manage all purchasing activity and to approve all Purchase Orders for non-contract items that is within their departmental spending authority.

The department obtains three written competitive bids in accordance with approved procedures for non-contract items and capital equipment in excess of \$3,000 and up to the State bid law requirement. The Strategic Purchasing Division may solicit additional bids or re-bid as necessary for purchases in excess of the department's spending authority.

(6) City departments are authorized to approve and issue change orders as defined herein as long as the purchase order as changed meets the requirements listed herein for POs. Other change orders are to be approved by the Strategic Purchasing Division.

(7) City departments are to observe established procurement goals for minority/women business enterprises in issuing purchase orders for non-contract items.

(8) City departments are to solicit at least three bids from Texas Certified Historically Underutilized Businesses (HUB) for purchases greater than \$3,000 and up to the State bid law requirement. City of Houston approved MWBEs vendors will satisfy this requirement. The HUB Directory should be utilized in the event that no certified MWBE is available to participate on a particular solicitation.

(9) City departments are not authorized to change, modify, or alter standard terms and conditions in the City's purchase order.

(b) RECEIVING POLICY

(1) City personnel shall not:

- Order or receive goods and/or services that have not been properly authorized through the issuance of a purchase order, purchasing card or petty cash.
- Knowingly falsify receiving documents.
- Change or present documents to make it appear that delivery took place after proper authorization was obtained.

(2) Receipt of goods and/or services procured with a purchase order must be recorded in the City's computer system within five working days after goods and/or services have been delivered and accepted by the department.

(c) PAYMENT POLICY

(1) Clarifications concerning payment for goods and/or services through the use of a Payment Voucher as opposed to issuance of a Purchase Order should be directed to the Office of the City Controller.

(2) Payment must be made as required by State law, currently within 30 days of receipt of invoices or receipt of goods, whichever is later.

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(3) Interest is paid at the rate set by State Law, from the 31st day until payment is made.

(4) Invoices are to be processed for payment or returned to the supplier by designated City employees within five working days of receipt.

(5) Invoices are to be returned to suppliers if they include errors or omit information required for further processing. Errors may include freight or other charges not specified in the purchase order.

(6) Alternate approved payment methods, e.g., direct payment vouchers shall be used for the following expenditures:

- Travel reimbursement or advance to City employees
- Airfare
- Registration fees (Conventions, conferences, and seminars)
- Subscriptions, periodicals and manuals
- Memberships and dues
- Advertising
- Utility bills
- Petty cash reimbursements
- Refunds (Ex. water deposit refunds)
- Land purchases/appraisal fees

(7) Professional services associated with employee training may be encumbered with a purchase order or contract.

(d) SEGREGATION OF DUTIES WITHIN DEPARTMENTS

(1) A City employee may perform only one of the functions that fall under the three functions as defined in this order: purchasing, receiving, or paying.

(2) No City employee shall independently perform the responsibilities that fall under any two of the three functions as defined in this order: purchasing, receiving, or paying.

(e) EMERGENCY PURCHASES

(1) Emergency Purchase Orders with the City Council approval authority must be presented to City Council for approval within thirty days after receipt of goods and services or receipt of a valid invoice, whichever is later.

(2) Receipt of goods and/or services procured with an Emergency Purchase Order must be recorded in the City's computer system within five working days after the issuance of a purchase order document with the appropriate approval levels as required according to the dollar value of the purchase.

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(f) POLICY COMPLIANCE

Violations of this order shall be reported to the appropriate authority. Consequences of violation may include:

- (1) Disciplinary action up to and including termination,
- (2) Referral to the appropriate authority for criminal prosecution, if the State bid law is intentionally violated, and/or,
- (3) Reduction or elimination of a department's purchasing authority.

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