Financial Administrator
Development Program

Procurement-Goods and Services

January 15, 2013
Kimberly Kokenakes-Director, University Services
PURCHASING IN CONTEXT

Purchasing is one of several units that are part of University Services. These units work collaboratively as a single, integrated supply chain organization. These units are:

- Purchasing
- Logistics
- Capital Asset Management
- Accounts Payable
- University Stores
- Mail Services
PURCHASING’S ROLE

Purchasing is a support unit with responsibility for the execution of external commitments for goods and services on behalf of campus departments.

Our main objectives are responsiveness, protecting the university from foreseeable procurement risk, and ensuring that requirements of MSU are being met.
PURCHASING ACTIVITIES

• Vendor Maintenance
• Sourcing
• Supplier Management
• Collaboration
• Bidding
• Analysis
• Contract negotiation and signature
• Contract Management

• PSCs
• Regulatory and Policy Compliance
• Supplier Diversity
• Sustainability
• Conflict of Interest
• Cost Containment and Savings
• Pcard Administration
As stewards of the university’s resources Purchasing, along with other areas of University Services, plays a vital role in institutional initiatives including cost containment, environmental sustainability, and inclusion and outreach.
PROCUREMENT METHODS

- Purchase Orders
  - <\$5,000 do not require competitive bidding, though depending upon the item other restrictions or approvals may apply
  - >\$4,999 require competitive bidding or written justification
  - >\$50,000 require a sealed bid process
- Use of Strategic and Convenience Contracts via University Stores Open Orders-release limit of \$2,500 for most; a few are at \$4,999
- Pcard purchases-dollar limit of \$2,500 per transaction with variable monthly limits established
PROCUREMENT METHODS

Customer/End User

Purchase Order
Strategic Contract Release
Pcard

Supplier
Purchasing Process

Keys to a Successful Purchase

• The purchasing process starts with the identification of a need. Once this occurs, determining the appropriate process can be achieved through a phone call, email or conversation.

• Early involvement of Purchasing is highly recommended for complex purchases, restricted purchases, purchases involving a conflict of interest, or purchases exceeding $5,000.00.

• Purchasing can provide guidance on the best procurement method and process to follow depending upon your needs.
PURCHASING PROCESS

• Budgetary v. Final Quotations
• RFI, RFP, Sealed Bid, RFQ
• Single Source Justifications
• Sole Source Justifications
• Freedom of Information Requests
BUDGETARY V. FINAL QUOTATIONS

Budgetary Quotations

• A budgetary quotation is defined as a quotation obtained by a campus end user as a means to identify the cost of a purchase transaction for internal approval processes or budgetary purposes. While these can be forwarded to Purchasing with the requisition, most times they are not the final quotation used to complete the purchase transaction.

• Typically budgetary quotations do not identify or contain all of the necessary information for the buyer to complete or execute the purchase order without further discussion with the supplier.

• Purchasing can also obtain budgetary quotations on behalf of departments.
Final Quotations

- For purchases over $4,999 Purchasing is required to seek competitive quotations, if available. At a minimum, Purchasing must obtain a current quotation from the supplier that meets all of the requirements for MSU.

- Examples include:
  - favorable shipping terms
  - favorable payment terms
  - identification of any additional support or product costs not identified
  - ensuring compliance with insurance requirements
  - import or export compliance
  - additional terms that may attach depending upon the funding source or item purchased
COMPETITIVE SOLICITATIONS: RFx

Request for Information:

• A Request for Information (RFI) is typically performed when a user has a need but there is limited knowledge about the product or service, the market or available supplier pool.

• The RFI is a tool to assist in better formulating requirements and in better assessing a market. Typically the next step following an RFI is a Request for Proposal.
COMPETITIVE SOLICITATIONS: RFx

Request for Proposal:

• A Request for Proposal (RFP) is typically performed for large, complex purchases such as major equipment, software, professional services, or consulting services.

• The RFP is a tool that allows MSU to obtain supplier qualifications, explicit information regarding the supplier’s ability to meet defined requirements, pricing information, and the supplier’s ability to accept MSU’s terms and conditions.
Sealed Bid:

- A Sealed Bid is a competitive bid for which a firm receipt date and time is defined when the bids will be opened in a public forum which suppliers are invited to attend. The pricing is read aloud as are offered alternates.

- With the exception of construction bids which contain strict submittal instructions, most competitive solicitations require further review prior to award. While the bids are opened and read aloud, awards may not be determined at the time of the bid opening.
Request for Quotation:

A Request for Quotation (RFQ) is typically performed for purchases of a less complex nature where items can be clearly identified by a product code and clear item description. Generally speaking RFQs are used for standard commodity or product purchases with limited associated risk.
COMPETITIVE SOLICITATIONS: RFx

Who is involved in these solicitations?

• Requests for Information, Proposal, Quotation and Sealed Bids are to be performed by Purchasing in collaboration with the campus department.

• By involving Purchasing early, guidance can be provided regarding the appropriate tool to lead to an optimal and timely outcome.

You define the requirements, and Purchasing does the rest!
COMPETITIVE SOLICITATIONS: RFx

What happens after solicitations arrive?

• The buyer receives the supplier offers, contacts the department or sends them to the department electronically.

• Depending upon the complexity of the offers, the buyer should provide a detailed analysis within 1 week with oddities in offers identified.

• Following review by the department and buyer, consultation regarding next steps occurs. These may include scheduling of supplier presentations, obtaining clarifications from suppliers, or it may go right to negotiation and awarding the purchase order. In all cases, Purchasing acts as the conduit between the department and supplier until the award is issued.

• Following award, Purchasing is available for assistance.
MSU’s Purchasing Policy allows for single and sole source justification in the absence of adequate or qualified competition.

• The justification process is the means by which the lack of competition is documented.

• Single and sole source justifications are to be issued in a memo, letter or email format with an identifiable sender who is responsible for the transaction. Typically these are principal investigators, supervisors, department heads, chairs or deans.
SINGLE SOURCE JUSTIFICATIONS

Single source purchases are those where multiple suppliers or products exist, but only one will meet the stated requirements. Determination of single sourcing typically involves an evaluation process and consideration of other potential sources prior to determination of a single source purchase.

The single source justification is to address the unique characteristics of the purchase that restrict it to a single supplier.
SOLE SOURCE JUSTIFICATIONS

A sole source purchase is one in which no alternatives exist for the item or service required and the source indicated is the only source available world-wide for the item or service.

The sole source justification is to address the unique characteristics of the purchase to demonstrate that the identified supplier is the only available supplier in the world who can meet the identified need.
FREEDOM OF INFORMATION REQUESTS

As a public institution, MSU is subject to the Freedom of Information Act (FOIA). Purchasing receives FOIA requests from suppliers routinely and is required to provide information regarding purchase decisions.

Purchasing provides information to the Freedom of Information Act Office when requested and refers suppliers to this office when requests appear to be of an onerous nature.

All purchase transactions are subject to the Freedom of Information Act.
WHAT IS A STRATEGIC CONTRACT?

• Strategic Contracts are university-wide contracts with pricing that has typically been determined via competitive bid or participation in a consortia based leveraging a collective volume of purchases.

• Benefits of Strategic Contracts
  
  • Ease of use via University Stores, Open Orders or Pcard depending upon the terms of the contract
  
  • Consistent pricing, terms and conditions, and product quality that can be benchmarked through the life of the contract to ensure we are getting the best price based upon our volume
  
  • Additional Services built into the contract
WHEN DO I USE A STRATEGIC CONTRACT?

• Strategic Contracts are to be utilized whenever the needed items are available on such a contract.

• Non-compliance with strategic contracts can negatively impact MSU’s ability to leverage volume in future contractual endeavors.

• Suppliers who have not won a strategic contract have a vested interest in diluting the concentration of spend on that contract.
STRATEGIC ALLIANCES

MSU has a number of strategic alliances with organizations such as the Committee on Institutional Cooperation Purchasing Consortium (CICPC), the Big 10, Educational and Institutional Cooperative (E & I), State of Michigan, Michigan Life Sciences Purchasing Consortium (MLSPC), Provista, Novation, US Communities, and various municipalities.

These alliances allow us compare options and obtain goods at the best price under the best conditions for MSU.
Examples of Strategic Contracts currently available to campus:

- Office Max Contract - this is a CICPC agreement
- VWR and Fisher Scientific Contracts - these are CICPC agreements
- Airgas Great Lakes - MSU strategic contract for cylinder gases
- Dell Computer - MSU strategic contract with releases issued by the Computer Store
- Passageways Travel - MSU strategic contract
- National and Enterprise Car Rental Agreement - Big 10 contract

For a list of available contracts visit [http://usd.msu.edu/university-stores/open-orders/supplier-list.asp](http://usd.msu.edu/university-stores/open-orders/supplier-list.asp).
FUTURE STRATEGIC CONTRACTS

• Previously, strategic contracting efforts often occurred behind the scenes without active engagement of the campus community, but this is changing.

• Future strategic contracting efforts will involve campus focus groups with cross sections of users who will be involved in requirements definitions through product and supplier selection.

• Purchasing will be calling upon individuals in your areas to participate in focus teams who will help to shape these future contracts to best suit campus needs.
PURCHASE ORDERS AND CONTRACTS

• A purchase order (PO) is a type of contract. For well defined purchases it may be all that is required.

• Purchase orders are typically used for complex purchases, purchases that exceed the dollar limit for use of a strategic contracts or the Pcard, or for restricted purchases.

• Complex purchases often require additional contractual documents.

• Purchasing handles the process of contract review and signature.
Contract Review and Signature

- Physical Plant
- Office of the General Counsel
- Contract and Grant Administration
- Risk Management
- Environmental Health and Safety
- Purchasing
- Office of Sponsored Programs
- Campus Departments
- Office of Export Control
PURCHASE ORDERS AND CONTRACTS

• Requisitions and purchase orders are to be completed in advance of any commitments being made to a supplier.

• If known, clear requirements will always lead to better results.

• Upon receipt of a requisition, Purchasing may require additional information to ensure that your needs are met.

• Accurate accounting and object code assignment are critical, particularly when acquiring capital assets or items for fabricated equipment.
SIGNATURE AUTHORITY

• Signature authority is the authority an individual has to make external commitments on behalf of the university. These commitments include, but are not limited to contract, agreements, software licenses, etc.

• At MSU, signature authority is delegated by the Board of Trustees and President Simon. (see handout for memo)

• Delegated is limited to a few key individuals and the Purchasing staff.

• Deans, Directors, Chairpersons, and Principal Investigators do not have authority to sign contracts.

• Individuals who make external commitments without signature authority, may face serious consequences.
CREATING A NEW SUPPLIER

Purchase Orders being issued to new suppliers require the set up of the supplier in the vendor database.

Purchasing contacts the supplier to obtain the necessary information. Vendor Maintenance verifies the W-9 and completes the set up of the vendor in KFS.

Following successful completion of the supplier in the database, the buyer can complete the purchase order.
CONFLICTS OF INTEREST IN PROCUREMENT

• MSU employees are considered as public servants and are subject to State of Michigan Laws regarding contracts with public servants, as well as MSU policy. (see handout for details)

• MSU defines a conflict of interest as:

A conflict of interest exists when an employee's financial interests or other opportunities for personal benefit may compromise, or reasonably appear to compromise, the independence of judgment with which the employee performs his/her responsibilities at the University.
WHAT IS A CONFLICT OF INTEREST?

Conflicts of Interest in procurement may include the following:

- Soliciting business from MSU for a company you have an interest in.
- Soliciting business from MSU for a relative’s company [link](http://vprgs.msu.edu/sites/default/files/COI%20Town%20Hall%20Presentation%20Summer%202012_1.pdf) – see page 16 for definition of relative.
- Accepting gifts or gratuities from a supplier.
- Developing an external relationship with a supplier your unit does business with.

See Case Study
CONFLICT OF INTEREST POLICY

• Potential conflicts of interest in procurement are to be identified and disclosed to the Director of University Services or the Assistant Director-Procurement.

• The university’s conflict of interest policy for faculty is located at http://vprgs.msu.edu/announcement/msu-conflict-interest-policy.

• The staff policy is located at http://www.hr.msu.edu/documents/ss_employee_handbook/ordinances_policies/contracts.htm.
CONFLICTS OF INTEREST PROCESS

MSU’s review and approval process for a procurement conflict of interest is:

1. **Conflict Identified**
2. **Conflict Disclosed to Purchasing**
3. **Purchasing determines availability through other sources or options**
   - **Item or Service available through other sources at better price**
     - **Procure through alternate source**
   - **Service Offered - Explore HR options**
     - **Project Pay or other HR payment used**
   - **Conflict of Interest Source Determined as best option**
     - **Purchasing provides Conflict of interest Officer with support confirming as best option**
     - **Conflict of Interest Officer prepares documentation for Board of Trustees Approval**
     - **Board of Trustees Approval Obtained**
     - **Purchase is completed to Conflict of Interest Company**

*Note: each situation is a unique action*
PURCHASING AND SPONSORED RESEARCH

• Purchasing, Contract and Grant Administration (CGA) and the Office of Sponsored Programs (OSP) all work together to ensure that requirements of research contracts and grants are adhered to and met.

• Compliance with our processes and the terms of the contracts and grants is critical in ensuring future work.

• Orders that include a line item that exceeds $5,000 on accounts with an RC prefix, will automatically route to CGA for approval after Purchasing approval and prior to printing of the purchase order.
Equipment and items required for research should be acquired as soon as they are identified as needed for the research. Delaying purchases until the end of the contract or grant period may jeopardize the procurement of the items against the contract or grant account.

Prior to submitting a requisition for an expenditure on a contract or grant account it is advisable that the end date of the account and corresponding contract or grant be checked to ensure funding is available.
SPONSORED RESEARCH REQUIREMENTS

• Purchases against contract or grant accounts may have special requirements such as subcontracting plans or defined budgetary items.

• Federally funded contracts and grants have different requirements for purchases than do corporately sponsored research purchases. These requirements are typically referred to as Flow-downs and they are terms and conditions that apply to MSU and pass through to our suppliers.
SMALL BUSINESS SUBCONTRACTING PLANS

Purchasing’s Diversity Coordinator provides assistance in the development of Small Business Subcontracting Plans

• Small Business Subcontracting plans may be part of the process for applying for a contract or grant.

• They are a means by which the government ascertains that entities they are issuing contracts to are compliant with the requirements for the federal granting or contracting agency.

• These plans require that the university department, in concert with Purchasing, commit to realistic percentages for procuring goods and services from a variety of small business entities.
SMALL BUSINESS SUBCONTRACTING PLANS

• Percentages required for a subcontracting plan may vary depending upon the agency and federal auditing body.

• The contract or grant applicant (MSU) is required to explain any reduced percentage goals for targeted small business types identified by the agency as part of the subcontracting plan.

• Explanations for source identification must be provided. The granting agency will want to know how MSU determined the percentages included in the plan.
PROFESSIONAL SERVICES CONTRACTS

• The Professional Services Contract (PSC) is used in situations where a department requires the professional services of an independent contractor.

• The PSC and corresponding Purchase Order are to be completed in advance of securing the services.

• PSCs are typically used with individuals providing a professional service not otherwise available in the university.

• PSCs are not to be used for product purchases, building trades, custodial services, or printing.

• Non-Resident Alien PSCs are processed by the Controller’s Office.
The Pcard is the recommended procurement method for low dollar purchase transactions for items unavailable through strategic contracts, University Stores, Computer Stores or Open Orders.

Pcard is a cost effective means to procure goods for business purposes.

MSU now has an easy to use reallocation feature in KFS for Pcard transactions, reducing the need for multiple cards.

The approval process includes the cardholder and fiscal officer as part of KFS workflow.
UNIVERSITY STORES OPEN ORDERS

Open Orders is an area of Purchasing that is responsible for managing the strategic and convenience contract activities for MSU. Features include:

- On-line requisitioning process through Non-Stock Ordering link in EBS.
- Availability of pre-negotiated strategic contracts and convenience contracts with local area suppliers.
- Payment to the supplier is handled by Open Orders.
- Billing occurs via a collector feed and detailed information is available at https://webapps.usd.msu.edu/home.asp.
FY2011-12 PURCHASING FACTS

• Purchasing spend was $415,872,247

• Purchasing issued 10,373 orders with an average value of $33,963

• Purchasing activities of competitive bidding, negotiation, re-direction of purchases to existing contracts resulted in documented savings of $4.7 million which is a 4:1 return on investment

• 11.4% of MSU’s spend was awarded to diverse suppliers

• The University Stores Open Orders area, which serves a procurement function of issuing low dollar orders, issued releases totaling $8,817,234 against strategic and convenience contracts
PURCHASING SPEND FY2003-2004 THROUGH FY2011-2012

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Accounts Payable has responsibility for the invoice audit and payables process for the University for payments to suppliers against purchase orders.

Accounts Payable works closely with Purchasing and end users to resolve issues related to payments.

Accounts Payable saves the university in processing many payments within a 10 day window. Prompt pay discounts taken in FY2011-12 saved the university $290,754.
SUPPLIER PAYMENTS

• Checks to suppliers are issued following thorough review by Accounts Payable staff to ensure that pricing matches, payment and delivery terms are met, and following KFS workflow to the Fiscal Officer.

• In recent months, from receipt of invoice by Accounts Payable to entry into KFS to route for workflow approvals the turnaround has averaged between 2-5 days.

• Invoices may be submitted to Accounts Payable electronically at usap@msu.edu.
FY2011-2012 ACCOUNTS PAYABLE FACTS

- Accounts Payable issued 37,468 checks to suppliers
- Accounts Payable processed 68,272 invoices for a total of $415,872,247 in payments to suppliers
- Invoices received by Accounts Payable are entered into the system within one week of receipt by Accounts Payable (based on current data).
Fourth Quarter Comparison of Longest Date to Input from Receipt of Invoice by Accounts Payable

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October 1-December 31; Calendar weeks 40-52
# Key Contacts for University Services

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<thead>
<tr>
<th>Name/Title</th>
<th>Email</th>
<th>Telephone</th>
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<tbody>
<tr>
<td>Kim Kokenakes</td>
<td><a href="mailto:kokenake@msu.edu">kokenake@msu.edu</a></td>
<td>4-6186</td>
</tr>
<tr>
<td>Director, University Services</td>
<td></td>
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</tr>
<tr>
<td>Roger Somerville</td>
<td><a href="mailto:somerv38@msu.edu">somerv38@msu.edu</a></td>
<td>4-6166</td>
</tr>
<tr>
<td>Assistant Director-Procurement</td>
<td></td>
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</tr>
<tr>
<td>Nathan Maher</td>
<td><a href="mailto:mahern@msu.edu">mahern@msu.edu</a></td>
<td>4-6185</td>
</tr>
<tr>
<td>Assistant Director-Logistics</td>
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</tr>
<tr>
<td>Pat Lynn</td>
<td><a href="mailto:lynnnp@msu.edu">lynnnp@msu.edu</a></td>
<td>4-6227</td>
</tr>
<tr>
<td>Supervisor, Accounts Payable</td>
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</tr>
<tr>
<td>Glenn DeYoung</td>
<td><a href="mailto:gdeyoung@msu.edu">gdeyoung@msu.edu</a></td>
<td>4-6181</td>
</tr>
<tr>
<td>Supervisor, Capital Asset Management</td>
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</tr>
</tbody>
</table>

Additional contacts available at [http://usd.msu.edu/common/staff-directory.html#Administration](http://usd.msu.edu/common/staff-directory.html#Administration)
LINKS TO THE MANUAL OF BUSINESS PROCEDURE

Section 270 (Purchasing)  http://usd.msu.edu/purchasing/about/mbp-270.html

Section 271 (P-Card)  http://usd.msu.edu/purchasing/purchasing-card/mbp-271.html

Section 76 (PSC)  http://usd.msu.edu/accounts-payable/about/mbp-76.html

Section 74 (Accounts Payable)  http://usd.msu.edu/accounts-payable/about/mbp-74.html

Section 325 (Mail Services)  http://usd.msu.edu/mail-services/about/mbp-325.html

Section 224 (CAM)  http://usd.msu.edu/capital-asset-management/mbp/mbp.html
QUESTIONS