

Herscher Community Unit School District #2

**PURCHASE ORDER
POLICIES and PROCEDURES**



PURCHASING POLICY AND PROCEDURES

POLICY STATEMENT

Herscher School District 2 supports sustaining and promoting a procurement environment based on the understanding that departments and schools are in the best position to determine what they need to run their programs. Policies, procedures, and processes are meant to reflect an environment that puts them in the best possible position to get the products and services they need in a timely and cost effective manner to effectively run their programs, while also making sure appropriate business processes are followed.

REASON / PURPOSE FOR POLICY

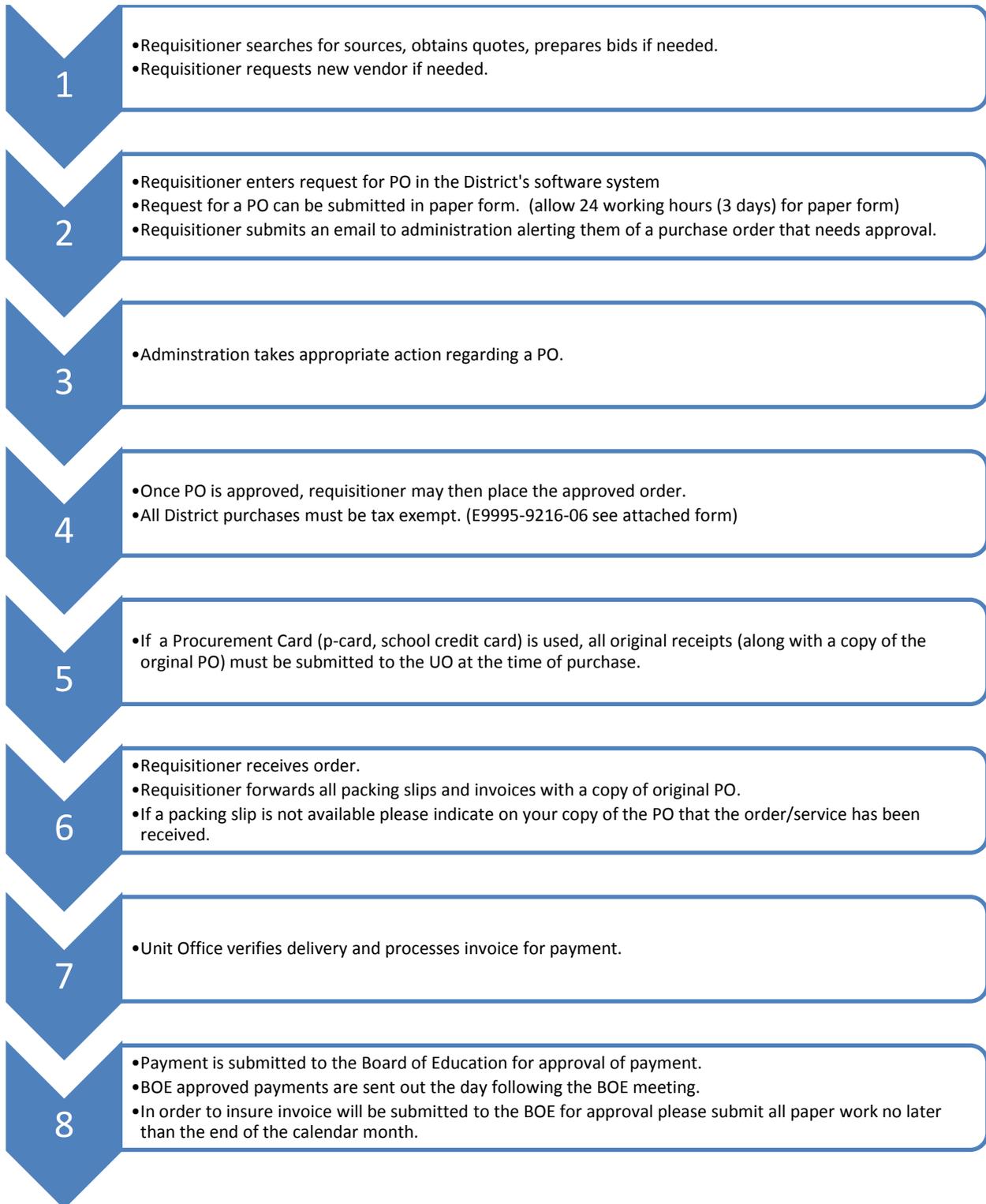
Considerable authority has been delegated to departments and schools to make purchasing decisions. This requires that employees involved at every step of the purchasing process take full responsibility for understanding the District's policies and procedures regarding purchasing and vendor relations. Purchasing decisions are business decisions made on behalf of the District and therefore should be made with the utmost consideration for what is in the best interest of the District. Purchases also need to be made in the most efficient and cost effective manner. Following policy and procedures ensures that appropriate business processes occur when dealing with outside vendors.

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Below is a simple outline of Purchasing Procedures, specific policies and procedures are detailed through out the purchasing manual.

For detailed instructions of Purchase Order data entry, see appendix.



POLICY

INTRODUCTION

The District's goal for every purchasing transaction is to obtain the best value possible. Best value is determined by evaluating many factors (such as price, delivery capabilities, quality, past performance, training, financial stability, service capabilities, ease of ordering, payment, etc.) and selecting a vendor that offers the best combination of those factors.

When bids are required by policy, they are to be conducted on an open and competitive basis and without favoritism, in order to maximize the best value to the department/school and District. Interested suppliers will receive fair and impartial consideration.

The District's procurement policy is intended to be consistent with the Generally Accepted Accounting Policies. District departments/schools will ensure that each transaction is classified or defined as an allowable expenditure. For sponsored programs, certain purchases may be unallowable.

AUTHORITY AND RESPONSIBILITY

As stated above, the District maintains a procurement environment that delegates considerable decision making authority to departments/schools.

These activities include:

- Determining which products and services they need to run their programs.
- Initiating requisitions to Preferred Vendors.
- Appropriately handle individual purchases less than \$25,000.

Employees involved in the purchasing process take full responsibility for understanding the District's policies and procedures regarding purchasing and vendor relations. Purchasing decisions are business decisions made on behalf of the District and therefore should be made with the utmost consideration for what is in the best interest of the District.

Segregation of duties and responsibilities in the purchasing process provides proper controls. As the dollar value and complexity of a purchase increases, so does the level of authority and responsibility required to obligate the District for a purchase.

An example of segregation of duties within a department/school is as follows:

- Requester/end user (teacher, secretary, aide, maintenance worker, etc.):
 - Determine what they need.
 - Determine whether the need can be fulfilled by a Preferred Vendor.
 - Research vendors.
 - Solicit prices.
 - Analyze costs and assess other important factors (i.e. delivery, customer service, etc.).
 - Select a vendor.
 - Initiate an electronic Requisition through the District's financial system (or communicate needs to authorized requestor).
 - Track documents and paperwork flow.
 - Ensure the proper receipt of ordered goods or services.

- Approver (superintendent, principal, director, etc.):
 - Validate the legitimate business purpose of the transaction.
 - Determine whether the need can be fulfilled by a Preferred Vendor.
 - Approve purchase orders.
 - Validate that adequate funding is available.
 - Ensure compliance with district policy and applicable regulations regarding Cost Accounting Standards.
 - Monitor and reconcile purchase transactions using the financial system and associated financial statements and reports.
 - Review and approve reimbursement requests and other special purchasing transactions.
 - Monitor budgets.

ETHICS

Ethical business standards shall govern all procurement transactions. Disciplinary action for those violating ethical business standards will be taken in accordance with applicable District policy, up to and including the termination of employment.

District personnel shall not solicit a gift or accept a significant gift from any supplier or prospective supplier. A 'significant gift' is defined as any item, service, favor, monies, credits, or discounts not available to others which could influence purchasing decisions. District personnel may accept trivial items as a matter of courtesy, but may not solicit them.

Acceptance of social invitations to occasional business meals, entertainment, and hospitality will be subject to prudent judgment as to whether the invitation places or appears to place the recipient under any obligation, the appropriateness of the occasion, frequency, and choice of facilities. Questions about the value of a gift or the appropriateness of an invitation should be referred to your supervisor to ensure compliance with the District's conflict of interest policy.

The District values its suppliers and assumes that vendors, in turn, value the District's business. No token or display of appreciation is necessary or encouraged. All vendors are asked to comply with District's standards by not offering incentives, gifts, or services to individual personnel.

SIGNATURE AUTHORITY

End users within departments/schools typically do NOT have the authority to sign ANY contracts or agreements with outside parties in the name of the District or one of its departments/schools.

Contracts and agreements that need to be signed by the District MUST be reviewed by the Superintendent. The Superintendent may also forward contracts and agreements for the purchase of products and services to the BOE for review to make sure appropriate policies and procedures were followed in the selection of vendors. Accordingly, a Bid Documentation should accompany the contract/agreement to be reviewed. Once the contract/agreement is reviewed and approved, it will be forwarded to the appropriate officer of the district for signature.

INSURANCE REQUIREMENTS

Herscher School District has established minimum contractor's liability insurance requirements. Vendors that do business with the District are expected to meet these minimum requirements. Risk Management must be reviewed and approved to insure that these standard insurance requirements of the District are met.

PURCHASING PROCESS

The purchase of goods and services from outside vendors is to begin with the initiation of a purchase order through the district's financial system or a paper form requesting a purchase order submitted to the district office (allow three working days for paper form). This shall occur at the time the product or service needs to be ordered, not when it is time to pay for the product or service.

A fully approved and budget checked Requisition is then automatically sourced into a Purchase Order. The official Purchase Order is ready to be sent to the vendor. The system provides an appropriate audit trail since all transactions are captured in the system specific to each individual purchase, putting the District in the best position to pay for purchases in a timely manner.

Starting with a Requisition ensures that an approved and official Purchase Order is issued. An official Purchase Order is the legal document that governs the transaction and properly protects the department/school and District.

Verbal purchases (without an approved purchase order) (i.e. phone orders) are not considered valid by the District, nor are purchase orders generated through internal department/school systems or means other than the district's accounting system. Departments/schools that use these means to initiate purchases with outside vendors assume responsibility for such purchases at their own risk.

BID PROCESS

The district requires that bids be solicited for all purchases of \$25,000 or more.

Departments/schools must consider annual or total multi-year spending for products or services needed on a regular or repetitive basis to determine whether a bid needs to be performed. It is not determined by the average monthly spending for a particular product or service. To reiterate, just because the monthly spending on a particular product or service may be less than \$25,000 does not exempt the department/school from having to solicit bids.

In addition, departments/schools should generally plan to have established contracts re-bid at least every three to five years. Some contracts can be longer, primarily those that require a significant investment by the vendor.

All bid openings are to be scheduled with the District Superintendent's Secretary.

SPECIAL PURCHASE ORDER TYPES

1. BLANKET ORDER

Blanket orders are to be used primarily to make payments for services that are provided on a regular and consistent basis, and in some cases for the regular delivery of a consistent quantity of product.

Specific examples include:

- Equipment: preventative maintenance (monthly payments)
- Garbage pick-up (department/school specific contract)
- Bottled water service (same quantity each month)
- Facilities: construction projects
- Rent, utilities

The underlying theme behind most blanket orders is that they are used to order and pay for on-going services or delivery of product when no individual ordering takes place. A contract/agreement should be in place that has been reviewed and approved by Superintendent.

Blanket orders are not to be used as an open line of credit or to facilitate informal or phone orders (open account with no detail regarding each individual transaction). Blankets orders should also not be used as a way to simply manage your budget.

Blanket orders should be sent to the vendor, so they know the PO number to include on all invoices.

ALL blanket Purchase Order requests will be reviewed and must be approved by the Superintendent.

Each year during thirty (30) days prior to issuing a new blanket order for the upcoming fiscal year, the ordering department/school or buyer should review the requisitioned blanket order for changes.

2. GRANT SUBCONTRACTS

A Grant Subcontract is an agreement written under the authority of and consistent with, the terms and conditions of a prime award, and authorizes a portion of the research or substantive effort to be performed by another organization. This specifically refers to sponsored programs. These requisitions do NOT require additional approval.

- Subcontracts are negotiated with the subcontractor through the appropriate office.
- Make sure that the contract period is within the start and close dates of the budget period of the sponsored program.

RECORD RETENTION

Departments/schools must maintain copies of all documentation related to purchases and shall be forwarded to the district office.

RECEIVING

A Receipt is the department/school's way of indicating to Accounts Payable that the product has been received or the service has been provided and therefore the Purchase Order is approved for payment.

A three way match is required for payment of orders (Purchase Order, invoice/receipt and packing slip).

- Receipts must be sent as soon as possible after receiving the product/service to authorize payment.
- When requesting payment for services rendered a two way match is required (Purchase Order/invoice).
- If a department/school will not be sending a receipt right away (due to a dispute with the vendor, etc.), please notify Accounts Payable.

INVOICING/PAYMENT

A purchase transaction is complete only after the goods/services have been received and the supplier has been paid. When a Purchase Order is issued, the department/school assumes responsibility to make sure the vendor is paid within an appropriate period of time. By issuing a Purchase Order through the district's accounting software in advance of the purchase, funds are properly encumbered and set-aside to pay these obligations. The encumbrance is not a contract, but ensures that the required funding is available. Accounts Payable pays invoices for the district.

PAYMENT PROCESSING

Vendors are instructed to send invoices directly to Accounts Payable for proper processing. This is the best way to ensure invoices are paid in a timely manner.

Invoices will be entered by Accounts Payable. If after review of the invoice, the bill should not be entered/paid (due to a dispute with the vendor, etc.) the department/school shall notify Accounts Payable in a timely manner.

In order to maintain a good payment record and to encourage the proper use of Purchase Orders, Accounts Payable will give the highest payment priority to original invoices supported by properly issued and approved Purchase Orders, and confirmation of receipt of goods and services.

PAYMENT TERMS AND PENALTIES

The District's standard for payment of vendor invoices is within thirty (30) days after receipt of the invoice. District's payments shall be approved by the BOE.

OTHER ACCEPTABLE PAYMENT METHOD

PROCUREMENT CARD

Individual limits can be set by departments/schools for each of their Procurement Card holders (both an amount per transaction limit as well as a monthly total limit).

Specific examples of when the Procurement Card should be used include:

- Registration fees
- Subscriptions
- Membership dues
- Emergencies (products or services)
- Internet orders (only when item needed cannot be found from any other source)

Departments/schools are encouraged to use the Procurement Card for small dollar, low risk transactions (i.e. less than \$500).

TAX EXEMPT STATUS

Herscher School District 2 is exempt from Sales Tax, Use Tax, Retailer's Occupation Tax, Service Occupation Tax (both state and local), and Service Use Tax in the State of Illinois.

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USE OF DISTRICT'S ILLINOIS TAX EXEMPT STATUS

This tax exemption is to be used exclusively to make purchases for use by Herscher School District 2 and is not for personal use by individuals, faculty, staff, or students. **Any purchase by a student organization must be District-related and paid for through District funds.** Herscher School District 2's tax-exempt status is a very serious issue and the integrity of how it is utilized must be protected, due to the potential for abuse. Misuse of the District's tax privileges could be detrimental to Herscher School District 2's tax-exempt status.

REIMBURSEMENT FOR TAXES

Since the District is exempt from paying Sales and Use Tax, these taxes are not reimbursable when an employee has extended personal funds for the purchase. A special exemption may be requested from the employee's Department Head, in cases where it can be clearly demonstrated that the purchase and payment of tax was unavoidable or an emergency. This should be rare.

ENFORCEMENT/CONSEQUENCES

Employees must be authorized to commit the District's resources to a purchase. District faculty and staff are responsible for adherence to all sections of the policy. Examples of improper use of purchasing authority include:

- Stringing or splitting a large purchase into two or more smaller orders in order to avoid bid requirements.
- Using an inappropriate account code.
- Conflict of interest and/or poor ethical conduct.
- Not processing a purchase for each transaction (Requisition to Purchase Order process).
- Improper, misleading, or deceptive use of the Sole Source Justification or Bid Documentation Form or any related information.

Departments/schools, as well as individuals, will be subject to disciplinary action for failing to handle purchases according to policy and procedures.

- This may include:
- Elimination of purchasing authority for the department/school
 - Employee may be recommended for discipline

PREFERRED VENDORS

A list of Preferred Vendors is maintained in the District's software system. Departments/schools are strongly encouraged to utilize Preferred Vendors for the following reasons:

- It is much easier to order from Preferred Vendors, tax exempt status is set up to be utilized.
- It has been determined that Preferred Vendors deliver the best overall value to the District based on price, delivery capabilities, quality, past performance, training, financial stability, ease of ordering, etc.
- Consolidation of usage drives up volume, which is what provides incentive for vendors to offer the best possible price to the District.

REQUESTING NEW VENDORS

If a vendor needs to be added, departments/schools must fill out the Vendor Add form. This form can be accessed on the District's website. This process is administered by Accounts Payable, who will first verify whether the vendor already exists in the system and may also check several other sources (the Federal 'Do Not Use' list, US Treasury, etc.) before adding the new vendor. A signed W-9 form must also be obtained from the vendor and to set up a tax exempt account.

SHIP TO LOCATIONS

Departments/schools are expected to select the appropriate 'ship to' address. Only a pre-established location can be selected by requester.

CHANGES TO PURCHASE ORDERS

Departments/schools can make their own changes to purchase orders after submitting them for approval, as long as the Purchase Order has not been sent to the vendor. If altered, the approval process will start over.

Changes that need to be made to Purchase Orders that have already been sent to the vendor can only be made by the Accounts Payable department.

PREPAID AND PARTIAL PAYMENT PURCHASE ORDERS

The use of pre-paid 'check-enclosed' purchase orders is discouraged and should be utilized very rarely. Such payments in advance, for receipt of goods places the department/school and the District at risk of loss if these goods are not received as ordered, or in an unsatisfactory condition.

However, occasionally a vendor refuses to accept a District Purchase Order without full or partial payment in advance. In order for a pre-payment to be considered, purchase order must be accompanied by documentation explaining the reason for pre-payment. The dollar amounts must be correct and include any handling or shipping charges. Documentation verifying the prices, such as a quote from the vendor, price list, vendor order form, or pro-forma invoice, must be provided. This documentation must also include evidence of the vendor's demand for pre-payment.

INCORRECT OR DAMAGED SHIPMENTS

If a shipment is received with incorrect or damaged goods, the packing material, packing slip, and/or shipping ticket should be saved. These may be needed if the items have to be returned or exchanged with the vendor. Adhere to the following to ensure incorrect shipments are handled appropriately:

- The department/school shall notify the vendor immediately in writing so that appropriate action may be taken such as issuing credit or providing a replacement.
- If the order has to be shipped back to the vendor, it should be packed in the original cartons and the vendor's process for return should be followed.
- The department/school should also accurately record this activity (i.e. number of items received, number of items returned, comments, etc.).

CREDITS

Credits may occur due to the receipt of defective merchandise, returned goods, discounts, or incorrect invoice payments. Unlike invoices, the application of credits is not simply a matter of verifying the facts on the memo and confirming that the subject goods or services have been rejected. Specific business and accounting questions may need to be resolved with the vendor before the credit is applied. Improperly applied credits are difficult to correct. If a department/school believes it is entitled to a credit from a vendor or receives a credit memo that is deemed to be valid, the department/school should contact Accounts Payable for assistance. All credit memos shall be sent to Accounts Payable for processing.

DIRECT BILLING, HOUSE ACCOUNTS, CREDIT CARDS

District departments/schools are not authorized to establish direct billing accounts, house accounts, or credit cards with any vendor in the name of the District. Departments/schools are not authorized to accept offers for credit cards, charge accounts, or house accounts from vendors who increasingly send such advertisements to departments/schools.

Only authorized District personnel may negotiate/set up credit agreements with vendors. Such requests should be routed to the superintendent, who in limited instances will authorize departments/schools to arrange direct billing with a vendor.

CAPITAL EQUIPMENT / ASSET TRACKING

Capital Equipment is defined as property having a useful life of one year or more and a minimum acquisition cost of \$500.00 per unit. Capital Assets must be inventoried and controlled in accordance with District policy.

All merchandise purchased with District funds is the property of the District, and as such may be disposed of only in accordance with District policy. Items must be declared as 'surplus' by the BOE prior to sale, trade or other disposal.

Questions concerning disposal of capital equipment should be directed to the Superintendent.

BUY VS. LEASE

Circumstances may require the leasing of equipment to satisfy specific needs. The economic benefits of leasing vs. buying must be determined before entering into any lease agreement. Departments/schools should consult with their School Administrator to determine if equipment could be financed internally at a lower cost. Ultimately, the District determines the qualified leasing vendors who will provide services to the District, and reserves the right to finance internally any such leases.

If sponsored project funds are involved in the acquisition of the equipment, it must first be determined that the source of funding allows for leasing.

Leasing may be advantageous if the total cost of a lease for the period of the equipment's life or the technological life is less than the purchase price. The total cost of the lease must be compared to the total cost of the purchase, taking into account such factors as equipment costs, maintenance costs, interest, taxes, and insurance.

INFORMATION TO VENDORS REGARDING PURCHASING POLICY

Vendors are informed of the following with regards to Purchasing Policy:

- All purchases of goods and services from outside vendors are to be preceded by the issuance of an official Purchase Order generated the District accounting software system that is then provided to the vendor.
- All invoices should be sent directly to Accounts Payable. Invoices should not be sent until *after* the product has been shipped or the service has been performed and must reference the appropriate Purchase Order number.
- Accounts Payable will make sure departments/schools receive a copy of invoices whenever their approval is required prior to payment.