

Chapter five

Small Purchase Procedures. Contents, we're gonna talk about micro purchases, small purchases, petty cash, how many of you still using petty cash? Most of my clients have quit we use credit cards. Why? So much easier to control everything. So much easier. Why? Because statements don't lie. Use of indefinite delivery contracts even for quotes, bid or quote splitting, purchase orders and required forms and mandatory clauses. Introduction, now, these small and micro purchase procedures are designed to give you the flexibility you need to buy what you need to get work done, especially micro threshold. The current threshold for small purchases is \$250, but remember, your State's establish a lower threshold. I know for a fact that Texas is \$50,000. I have been told by the HUD office, New Mexico is \$60,000. So I'm gonna believe it you've looked it up. That is really for the vast majority of you more than enough room. To do quotes underneath it, but we're gonna talk about that because quotes are not always the best value of what you want to do. Micro purchases threshold, is at \$10,000? We've done some research It is now \$10,000 in New Mexico, Don't think that you're gonna do anybody a favor if you establish \$5000. You're allowed to But I am going to tell you something after tons of experience, you're are only shooting yourself in the foot. Establish \$10,000 as your micro threshold that does not mean that you won't do a quote when it would be better to do so. And let me give an example. You may be able to go buy a generator for \$9,000.

A Honda, good steel sleeve Honda generator. But, and that's under the \$10,000. However, if you were to contact three people and get a quote, you might save a bit of money and by might I'm being facetious. You will save. Because what's quoted on their website, or what you're quoted to you when you first asked for it is not their best price. Your the supplier, I'm calling you up to get a quote from you for this generator, and just be aware I am calling others too and we're going to award to the lowest cost. That price just went from \$9,000 down to whatever. Who else am I calling? We don't disclose that information. No just say I'm going to get three and it is probably who you think it is, and maybe even more. And that cost will probably go from \$9,000 down to \$8,400. There by saving \$600. Remember the price must be reasonable. Now let's talk about micro purchases. You do not have to do quotes for micro purchases, In the aggregate, you do not have to do quotes. However, just because you see a price somewhere, you have to decide whether it's reasonable now contracting officers and EDs. If you buy it for that price HUD says, then you're affirming it's reasonable. Yeah, that's your affirmation that is reasonable. And HUD says, if you're not sure, then you need to check. You need to check around and see. For a micro purchase under \$10,000, an ICE is not required. However, if I do a competitive quote, under \$10,000, I put an ICE in the file. You know why? Because HUD is going to expect to see ICEs for competitive solicitations. That's a hint for everybody here.

If it's competitive, do an ICE, even if it's under \$10,000. It's usually for simple stuff like labor job, work job or, 10 refrigerators. That's simple to do, those ICEs very simple. Your signature verifies that it's appropriate though if you don't do an ICE. The small purchases, now remember small anything above a small, we do an advertised solicitation. We put an ad in the paper. Federal level 250, Texas is and New Mexico is, 50 for Texas, 60 for New Mexico. You must solicit and receive at least three quotes. Now HUD says in the regulation, you must solicit three. They don't mean you ask for three. They mean you ask and receive three. Can you justify less than three? Potentially yes, but it has to be justifiable. For instance, I had one of my staff walk in and we used to have four little simple telephone quotes. We had this form that had lines on it and where you filled in everybody's in the contact information and their price. And he called three people, for this I'm gonna say it was a generator, and only one of them turned in a bid. And the other two said no quote. Now is a no bid a bid? It is not. No bid is not a

bid. No bid. So therefore it is not a bid. It is not justifiable. Plus, this was a setup from him, because the quote, he called the generator shop, and then he called a dry cleaners and a donut shop. I don't remember if those were the things but it was just as ridiculous of what I just said. And I said, what are you doing? And I said, what are you doing? He goes, "No, don't worry about it Mike, "I get boss, I got to make sure they get this right here, "this generator." That has a technical term, it's called fraud, collusion. I don't know what else is there, I said no, no, no, no call two other generator shops. And he says, "Well, then they might win." They might. Do you know, we're all laughing.

But I gotta tell you something. I see this kind of thing done all the time. Maybe not as silly as I just said it, but it's done. Don't do it. Also, when he asked for a certain type of generator and a model number, what are the other two words we always have to add to it? or equal is the terms. But the term in the handbook is or equal. So I'm telling you, anytime you have a brand name on anything, you have to use the term or equal and accept anything else, that's within a reasonable range of tolerance. Documentation required where you're gonna have an ICE form for small purchases, you're gonna have documentation showing that multiple people were called. Oh, by the way, Mike, I called three and I only got one. You're telling me I have to call more? I go, yeah, if you call three and got one, that means that if you call nine, you'll get three. So call nine more, or six more. They call me back and says, "Mike, I called six more "and I only got one more." Great, now call four more, cause you'll get your third one. I don't have time, then why are you doing public procurement purchasing? If you don't have time to do this all the time we've spent on the phone stay with me. I want you to see this. When you're making these decisions, all the time we've spent on the phone you could have already called those other people. Get three, three is this thing we'll talk about later, how can we justify less than three? Get three. So all this documentation, including all outreach must be in the file. All your notes. If only one quote is received, you must include a statement indicating that the price was reasonable based on your thoughts, and why is there an absence of competition? And again, I need to remind you, your lack of time to do it is not an excuse. Nor is because we waited too long. The obligation deadline was coming. Those are not excuses.

Then you have to have an explanation supporting what by other factors, unrelated replies, which means a response, not responsive or not responsible. But remember, when we receive three quotes, who do we award to? The lowest cost? As long as they are responsive and responsible. You see, they might not quote you what you wanted to buy If they're not giving you an item that's equal to what you're buying you you don't have to award to them. Usually at that point, I say give me something equal to Well, that's gonna cost you more, well, I'm not gonna pay more, so you're out. And then responsible somebody you actually wanna do business with. By the way, do you notice that we keep reminding documentation must be available? This is going up on multiple screens throughout this presentation. You know why? Because folks tend to start throw stuff away. If it ain't written, don't exist. Petty cash, you know petty cash, very small one time purchases again, I go with credit cards. You can get a credit card just for the agency and store in a central place and have it turned back in. You know, petty cash and credit cards, both staff sometimes mess up and do wrong things. You just know it quicker when you use the credit card. If you do have a petty cash fund, you gotta establish a procedure with a maximum in the fund, I don't know, \$200, 150. Maximum purchase amount. We got rid of the petty cash because of fraud, honestly.

She didn't give me 20 she only gave me a 10. No, and then we found out they bought snacks. Who administers the fund? Whatever documentation is required to administer the funds, you're gonna have to have the receipt and then you're gonna have coding on the receipt where that's coded out to, which program, which site how often funds are replenished? So much hassle,

credit card really works. HUD encourages the use of indefinite delivery contracts, absolutely, and I agree fully. These are sometimes called for small purchases blanket purchase agreements or blanket purchase orders. It's when we issue a purchase order for a period of time with a maximum not to exceed amount. And then that allows people to go buy against that. I had about 600 of these things out every year. Because every office had one for their office supplies. Hey, I didn't have staff for office supplies for everybody every week. People had budgets. \$2,000, I do a blanket purchase order for \$2,000 for office max, if that was our contract holder, and I did that on a piggyback. Somebody else did a bid and then I awarded for the bid. And then each office would buy what they needed and use that same PO until they drew the money all down. It's called a blanket purchase agreement. Frequent small purchases, very small or micro purchases, but you'd have need them on a recurring basis. Really, the exact items and the quantities are unknown but their unit cost is known because I have a contract. So if I give you a blanket PO for \$2,000 when you call up and utilize that they've already coded you.

Home Depot is the same way. And all of my sites had Blanket Purchase agreements for Home Depot and HD Supply. The bid had already been done. They could buy, buy, buy till their daddy took their blanket purchase order away. BP allows you to get that preset price, but not to go through all the minutiae of receiving stuff in. In the old days, we had a warehouse which HUD made us disband it. I was so angry, when it was all done, I went, "Whoa, this is the greatest thing ever." No warehouse, no managing stock, stock that gets old. Yeah, it was terrible. So we went to blanket purchase agreement where people could order themselves from their desk and get delivered to the desk, we control that I had spreadsheets and things that watched over it every month, but it was a lot better. Remember, anything over the micro threshold competition is required. Let me give you an example. Let's say we do a quote for something, and the quotes come in at (writing on board) 20,000, 20,001 and \$20,002. We've done a quote for this. That means we've got competition we got three. And let's say here that, this is the worst contractor we've ever had. This person we know nothing about and this is our best. So, you know it's only \$3 difference, let's just jump over these two, in fact, I'll pay \$3 into the fund to make up the difference, and then we'll just go to this person who's really good. Do we all agree you can do that? No, you can't do that. Let's say we've got this contractor who's really done bad work, can we eliminate them? Yes, as long as we have in the file, notices to cure, and detailing out the history of all of their inappropriate, poor work. Because when my people would go to me or my director and say don't award to that contractor, I'd say, let me see your notices to cure. I don't have time to write those notices, Then I don't have time to say no to that contractor.

Have the paperwork in the file, but let's say that we do have the paperwork, then we can eliminate them. But I got a question for you. If you were never gonna give them an award, why did you fraudulently solicit a price from them? And it certainly was not unfair to them to give them the idea that you might award to them when you never had any intention to award to them. You know what I do? There have been on my career a handful of contractors that were so bad that when we were done with the last job, we gave them a letter and said, "You can't bid with us anymore." Of course, that has to be backed up by my attorney, my Executive Director, The Board and our local HUD office if they're politically connected, because they're certainly gonna get a call, so we informed our HUD office, they're in Vegas, that we have barred this bidder from bidding. You know all HUD ever did was says, "Well, that's your decision, send us the paperwork." And we send them all the justification and the notices and they never said anything. Why? Well, I think because, we're the one who has to pay the price not HUD. But we informed them. So we kicked them out and we didn't take bids from certain people. Now, I think we're all in agreement we know nothing about this contractor we will just

eliminate them as being non responsive and jump to the last one. So we're all in agreement, we can just jump over that person we know nothing about make the award, correct? No, if we're gonna eliminate them, of course we do. We have to check them out. But you know, I don't have time to do that. So let's just jump over them, right? No, by the way, for a \$20,000 bid, you can do 10 minutes worth of calls, call people and say, would you hire them again? If they say yes, well, then you're probably your risk is low. And you know, what could happen from that? Maybe now we're gonna have two preferred contractors, two people we really like. Let me give you another issue. Let's say that we have a purchase. What is our micro threshold? \$10,000, let's say we have a purchase of \$9,000. And now we need something from the same vendor or another vendor, but the same item, and we go and buy other vendor for \$9,000. Is that allowed all without a bid? Is that allowed?

The answer is no. It's in five three C of the handbook. This is called bid splitting or unbundling. The micro threshold is in the aggregate. It means all purchases from a certain vendor or purchases of the same items from different vendors, if they're over \$10,000 in value during the year, you have to do competition, or a piggyback or some other thing. Is everybody got me? This was so difficult when it was \$3,000 and \$2000. Now it's \$10,000, it's much easier on us. If you buy electrical supplies from one vendor for \$9000, and another vendor from \$ 9000, and you don't have bids, you don't have competition. You don't have a piggyback justified, you've just violated the law. Because these two together add up to 18. And everything over \$10,000 must be the result of competition or justified otherwise. In the aggregate, If you do a competitive process, you're gonna select the vendor through a variety of issues, but it's usually price, the quality of the goods and whether they were responsive or responsible. You can have more than one vendor for products. In fact, it's good to have various sources of supply. However, if in the aggregate, they exceed \$10,000, you've got a problem if you didn't do a bid. Every Blanket Purchase Agreement must list generally what people can buy, who can buy, which employee is and not to exceed amount. Listen to me carefully, every contract, purchase order or Blanket Purchase Order must have a not to exceed amount. Now remember, you can change those amounts very easily, just by doing a modification to the purchase order. It's not like construction where you have to justify all this stuff. In construction change orders require a lot of justification. But if I have a Blanket Purchase Order with a Home Depot, and I run out of money, before I run out of money I can change it from 6000 to 10,000 just by simply changing the purchase order and informing the vendor that we have done so. We just talked about this here.

It's in the aggregate and it's not allowed. Let's say for instance, just like this, that you have to purchase 40 new refrigerators, estimated cost \$32,000, or \$800 a refrigerator. You need to re-solicit quotes for them, because it's most certainly going to be above the 10,000. Instead though, you order 10 refrigerators at 800 a piece, and that's \$8,000, right? And you don't do a quote, and then you come back later, and you do 10 more, and you don't do a quote, that's that problem right there that I showed. Are you with me? So, some folks say, "But Mike, how do we know ahead of time?" Don't ever say that around somebody from HUD because they know that you're not doing advanced planning. How do you know? You look in your budget? How much do I have for appliances in there? If it's up in the 30, 20, 30 40,000, what are we gonna have to do? A quote or a bid. Purchase orders are a simplified contract type. Purchase orders do not have to be typed up before you go to the vendor. If they are very low risk out of my 10,000 purchase orders a year, 7000 of them were just PO numbers for purchases. Why? Because they were for small things like 300 here and 400 there. And I don't need to type that all up. It cost me more to type those up beforehand, than I'm spending on the money and why are they low risk? Because typically, Oh, hold on, if you ever do a P.O. for work, unless it's an emergency, I would type it up for work. Because work makes it high risk, but materials is low

risk. And I'll tell you why. You go out, you use the PO number, you buy the thermostat, you bring it back and you go, "Oh man, it's the wrong one." As long as you haven't damaged the packaging or anything, you package it up, you take it back and you exchange for the right one. Isn't that a typical thing maintenance folks here? Sure, we get stuff and we make sure we don't destroy stuff. Now if it was a compressor, for a HVAC unit, you better make sure it's right before you to install it, once you've soldered you ain't gonna get your money back But we don't need a full typed up PO you can use a PO number for that.

When you do type up POs, elements of work, scope of the items of the services, what the price is, what the delivery is, because sometimes they deliver to us and we have to allow for shipping. How they're gonna be paid? That's all on my terms and conditions for POs. Inspection and its acceptance, what is the acceptance? When you sign the receipt, that's your acceptance and you attach that to the purchase order. There are mandatory forms that HUD requires. Table 5.1 is required for all small purchases unless they're construction. In table 5.1 they address different things, it's a one and half page form, EPA requirements ownership data energy efficiency, they have a bunch of words on there, and it's required to be issued with the quotes or the purchases, small purchasing except construction. Now let me tell you about your problems with doing a quote for work. Let's say that you're in maintenance, and you and your boss says, "Get this generator." And you know the model number, the brand name, and you call up three people and say, give me a quote over the phone. Now if table 5.1 is not a problem, you don't need it for that because you can include it with the purchase order when you send it to buy it. However, make sure that you tell them or equal. And that's not a problem to write all of those prices down. Okay, you ever done that? Made three prices on a piece of paper and the three people you talk to? Yeah, a lot of people have done that. That's not really a big problem with quotes for materials or equipment. However let's say that the wind comes through and knocks down six trees. And we're estimating that to clear up those trees and branches is gonna be about \$9,000.

Because we did it last year, and that's what it cost us then. Are you with me? Now, to have three people come out and give you a price, the problem is, to do it all verbal is very problematic. Because when we're talking about labor, we're gonna have a whole bunch of things that apply to labor. Wage rates, how to clean it up, safety, disposal, safety during the job. They're just a whole bunch of stuff. So doing that over the phone and making sure everybody gets the same language is gonna be problematic. So you're gonna have to write up a scope of work, which could be just on a page or two. How they clean it up? The time period we have to have it done within. Now, how do we cover wage rates for tree trimming? What kind of wage rates do we give them? Davis Bacon is construction only and tree trimming is not construction. Maintenance wage rate decision form HUD 52158. How do you give that out over the phone? The next issue we have to issue is table 5.1. Okay the next issue we have to issue is, because it's work form HUD 5370C section two, general contract conditions with maintenance work, which is three pages long. Wait a minute, we're up to, to about 10 pages. So let me ask you something. How can you call up anybody over the phone, get three prices when work is being provided, and still be in compliance with HUD requirements. You can't. You can't do it. So if you're buying equipment or materials, it's within the realm of possibility you can call for three quotes on the phone with the rest of that. It's just not real.

It's not practical or reasonable that, that will occur. Remember, your micro threshold is now how much? \$10,000 except for construction and it's \$2,000. Your micro threshold for construction is 2000. So you have to have competition on anything over \$2,000 for a construction job. I'm surprised nobody's asked me what's the difference between construction and maintenance? First of all, HUD has described construction as new construction and major

rehabilitation. That brings it down a little bit. Now, let me give you the next thing. This is my fail safe way to describe the difference between construction and maintenance. Are you ready? I can't describe it, but I know it when I see it. And so do you. Hold on a minute. Let's say that we call in plumbers, only got two in town and you call a plumber to come in and fix a broken toilet because it's just whatever somebody's off. Hold on, but the toilet is the example. And they're gonna have to even replace that toilet is that construction or maintenance? Everybody said maintenance and I agree with you. However, we're gonna go to the next thing. Eight inch main broke in the middle of the street, they've got to bring in the backhoe and everything and now and they've got to get it done. Construction or maintenance? Construction because it's major rehab. You have a unit turnaround somebody goes in gotta a patch up the flooring, and in one case replace all the flooring in one room, patch a few holes in the walls, paint it, replace a few light fixtures, construction or maintenance? I believe that's maintenance.

However, you've got five unit turnarounds that are really bad, and they need major work. I got a housing authority now where I'm doing over 100 units. And when I told him construction he goes, "But when you told me to do this other you said it was maintenance?" I go but it's different when you've got a whole bunch of it together. Now it falls into those other trades. But remember, there is no clear definition except that we've had audits through audits, and our definition that we have in the file and it's been accepted. Remember, even if it's not capital funds, you're spending it on a construction project, you're still Davis Bacon. There are some people who have spent all of their capital funds, but they have to do a job. And they said, "Mike, I have no more capital money, "so I'm gonna have to pay for this job out of operating." And I said, it's still Davis Bacon that has nothing to do with it. Because it's a construction project. And then the other thing I tell them is, everybody's getting paid more than that anyway, so stop worrying about it, saving money by trying to find ways to get around the Davis Bacon wage rates. Generally speaking in almost all areas, those wage rates are lower than what people are getting in today's economy. Just to let you know that's not a law or a rule. Contract clauses continued for construction Remember 5370 EZ, is for construction 5370 is for construction bids. The 5370 EZ is for construction quotes, and the more inclusive form the 5370 is for bids. For maintenance, you're also gonna need section two of 5370C. Remember I talked about that earlier, yes.