THE UNIVERSITY OF MICHIGAN

STANDARD PRACTICE GUIDE

SECTION:	Purchasing	**Number:**	507.1
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SUBJECT:	General Policy and Procedures	**Date Issued:**	
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APPLIES TO:	All Departments and Units of the University	**Attachment(s)**	0
ISSUED BY:	Purchasing		

I. PURPOSE OF PURCHASING SERVICES

The Offices of Purchasing Services are organized to serve the University community in the selection, acquisition and utilization of materials and services in a manner that provides essential accountability for University expenditures. All purchases of goods and services must be done in an open and competitive environment to ensure that prices paid by the University are 'fair and reasonable'. As a public institution, the University of Michigan is committed to an environment that fosters open decision-making, practices and policies. Our business objective is to select vendors and suppliers on the basis of the quality of their respective products and services, in accordance with our stated principles in order to obtain the best value for the University.

It is the responsibility of Purchasing Services to provide procurement oversight and to ensure that purchases are made in accordance with all applicable Regental By-laws, Federal, State and local laws, regulations, codes and ordinances. Purchasing Services administers expenditures of all University funds for goods and services in conformance with University policies and procedures.

II. DELEGATION OF AUTHORITY

The competitive procurement of goods and services necessary for the operation of the University is the responsibility of the Regents, who have delegated that responsibility to the Executive Vice President and Chief Financial Officer, who in turn has delegated this function to the Director of Purchasing. Purchasing Services is the agent authorized to make commitments against University funds for these purposes.

In accordance with the University of Michigan Regental Bylaw 3.07 (2)(d), and through the delegation of authority detailed above, departmental end users are authorized to commit funds on behalf of the University through their M-Pathways Procurement ID profiles and/or through the use of a University of Michigan Purchasing Card. **Authority to sign contracts has not been delegated to departmental end users.**

Participating departmental end users must adhere to all the University of Michigan Procurement Policies and Practices**. It is the responsibility of the Department Administrator** to ensure that any departmental end users adhere to all of the University of Michigan Procurement Policies and Procedures, including practicing vendor diversity.

On all purchase orders awarded by Purchasing Services, it is University policy that all contracts or correspondence pertaining to negotiations affecting purchases or prospective purchases which

involve pricing, terms, conditions, and delivery shall be initiated by Purchasing Services. Additionally, Purchasing Services shall coordinate all correspondence pertaining to a purchase order which has been placed and which involves pricing, terms, conditions, delivery, quantity, substitution, or complaint.

Purchasing Services is charged with the responsibility of maintaining an open and competitive process for procurement of goods and services. Bids and proposals from competing vendors are to be evaluated by Purchasing Services, and contracts awarded. The solicitation of formal, sealed bids may be appropriate. As part of their stewardship responsibilities, departmental end users are encouraged to compare prices between vendors even when the purchase amount does not require a formal bidding procedure. An open and competitive purchasing environment requires that information pertinent to the bidding process be kept confidential until the conclusion of that process.

Failure to comply with procurement policies and procedures may result in the suspension of use of the M-Pathways online procurement system, P-Card and Non-PO voucher system and/or disciplinary action.

III. PROCUREMENT METHODS AND APPROVALS

Various methods are available to University faculty and staff to facilitate the purchase of goods and services and to ensure that the best value has been obtained. It is University policy that the purchase approval process be consistent among the various procurement methods, based on materiality levels and other relevant criteria.

Procedures governing the procurement of goods and services on the behalf of the University of Michigan are disclosed on various University of Michigan Web pages, and can be found in financial training courses offered by Purchasing Services and M-Pathways. A complete list of courses offered is available on the Purchasing Services Training Web page at http://www.umich.edu/~purch/Training/ and on the M-Pathways Financials Training Web page at http://www.mpathways.umich.edu/fin/gltrack1.html.

The methods approved for purchasing functions are as follows:

A. INTERNAL SERVICE UNITS

Internal Service Units are used when one University unit provides goods and/or services to another unit. Related costs are billed to the receiving department using an approved recharge rate. Procedures for requisitioning goods and services from internal service units are available online at http://www.umich.edu/~purch/BuyingOptions/serviceunits.html.

B. UNIVERSITY CONTRACTS

University Contracts are those contracts that have been negotiated and contracted with the University to provide goods and/or services with favorable terms for pricing, delivery and

other factors. They are used to provide units with efficient access to commonly purchased goods and/or services such as office supplies and laboratory equipment. Prices, terms and conditions of sale have been pre-approved by Purchasing Services. A complete list of contact names and telephone numbers is provided on the Purchasing Services University Contracts Web page available online at http://www.umich.edu/~purch/purch/SPT/primevendor.html. For a listing of all University Contracts see http://www.umich.edu/~purch/Contracts/.

C. UNIVERSITY PURCHASING CARD

The University Purchasing Card (P-Card) is a credit card issued by the University through a banking institution, and is paid directly by the University. Certain types of purchases are prohibited on the card, as outlined in the cardholder's training materials. **The cardholder is accountable for purchases made on the card.** It is to be used for purchasing supplies, services, and other items that are of relatively low-dollar amounts. Initial card limits are set at $5,000 per purchase transaction, $100 per ATM transaction, and $10,000 for monthly totals. Higher authorized amounts may be obtained after submitting a written request to the P-Card administrator, who in turn submits the request to the Accounts Payable Office for approval. Eligibility, application, credit limits, monthly statement reconciliation requirements, and other program policies are provided on the Purchasing Card Web page available online at http://www.umich.edu/~purch/AP/PCard/ .

D. PURCHASE ORDERS

1. Purchase Orders

Purchase Orders are to be used for purchases over the $5,000 threshold, but may be used for lesser amounts in situations where a University Contract is not available, where the University P-Card is not accepted, or where the purchase requires special handling. Purchase Orders for amounts over $5,000 require competitive bidding and must be requisitioned through Purchasing Services. See the section on Purchase Requisitions below. Purchase Orders and Requisitions are normally entered online by a departmental end user.

2. Purchase Requisitions

Purchase Requisitions are used for purchases over the $5,000 threshold (where competitive bidding is required) and for other purchases requiring special handling. Additionally, requisitions must be used for any contract, including lease agreements, maintenance agreements and use of employment agencies and temporary personnel services. Requisitions are submitted to Purchasing Services either electronically through the M-Pathways system, or alternatively through a written requisition. Regental by-laws require that Purchasing Services solicit bids for purchases of goods and services over the $5,000 threshold amount. Personnel services must be paid through the use of the appropriate Human Resources mechanism rather than a Purchase Order.

3. Contract Purchase Orders

Contract Purchase Orders are designed to eliminate repetitive requests for supplies or services by allowing departments to make multiple purchases from one vendor through the issuance of a single purchase order for a specified total amount. They may also be used for purchases of specific items at specific prices, and are subject to the terms and conditions of a written contract. They are valid for a specific period of time, usually one (1) to three (3) years. The use of any given contract purchase order is limited to the originating unit or department. Because they are contracts, contract purchase orders must go through Purchasing Services by way of a Purchase Requisition. Vouchers written against contract purchase orders are put on hold when the aggregate amount paid to the vendor exceeds the purchase order total. A change order increasing the purchase order total must be processed before additional vouchers can be approved for payment. It is the responsibility of the unit to verify that vouchers issued under a contract purchase order adhere to the terms of the purchase order.

E. NON-PO VOUCHERS

Non-PO Vouchers are used to reimburse purchases when vendors do not accept University purchase orders or University credit cards. They are not to be used as substitutes for Purchase Orders. Accounts Payable must receive original receipts with approved Non-PO vouchers before reimbursements will be issued. Transactions that are missing data or otherwise fail to meet University requirements will be sent back to departments for correction. Instructions for filing Non-PO Vouchers are provided on the M-Pathways Financials Forms Web page available online at http://www.umich.edu/~purch/Forms/. Specific guidelines for Travel and Business Hosting reimbursements may be found in SPG 501.4-1.

F. PETTY CASH

Petty Cash funds may be used to reimburse small dollar-amount expenditures where the use of University Contracts or P-Card is not practicable. The Standard Practice Guide outlines policies for the use of petty cash funds in section 502.1.

IV. ETHICS, CONFIDENTIALITY AND CONFLICT OF INTEREST

It is the responsibility of each faculty and staff member of the University as well as Purchasing Services to assure that the University does not knowingly enter into any purchase commitment that could result in a conflict of interest situation, see SPG Section 201.65-1. Care must be taken to avoid the intent and appearance of unethical or compromising practice in relationships, actions and communications. Units with questions about a particular situation should contact Purchasing Services.

All procurement activities conducted on behalf of the University of Michigan must be in compliance with the following ethical standards:

1. Follow lawful instructions, use reasonable care and do not exceed the authority granted.
2. Do not engage in any private business or professional activity that would create a conflict between personal interests and the interests of the University of Michigan.

3. Do not solicit or accept money, loans, credits, preferential discounts, gifts, gratuities, entertainment, favors or services from present or potential suppliers. Unsolicited gifts of a promotional nature and nominal value may be accepted, provided that they do not involve a commitment to do business or influence business. It is not permitted for University employees to accept either site visits or training from vendors.
4. Handle confidential or proprietary information with due care and proper consideration of ethical and legal ramifications and governmental regulations.
5. Do not enter into reciprocal agreements that restrain competition.
6. Do not use University of Michigan systems for procurement of personal purchases or use University of Michigan buying power for personal benefit.
7. The University, as a general rule, does not enter into purchasing contracts with faculty, staff or students or their family members. Procurement transactions between the University and businesses in which these individuals hold a financial interest are prohibited by State of Michigan statute without full and prior factual disclosure to and approval from the Regents of the University of Michigan.
8. Any arrangements wherein individuals or entities knowingly and willfully offer, pay, solicit or receive remuneration in order to induce business must be reported to Purchasing Services.

V. Vendor Diversity, Socially Responsible Purchasing and Environment Sustainability

The University of Michigan MConnect program assists in locating and establishing relationships with vendors who represent diversity, socially responsible purchasing and environmental sustainability. These ideals are central to our academic, research, and athletic excellence. The University of Michigan will provide every reasonable business opportunity to minority-owned, women owned, small disadvantaged, HUBZone, veteran owned and service-disabled-veteran owned businesses.

- Purchases of goods and services from such concerns, shall be made to the fullest extent possible, consistent with this policy and the efficient performance of operations.
- Every employee who is delegated the responsibility to directly commit the expenditure of funds for the purchase of goods and services shall encourage meaningful participation of these business enterprises.

For more information about the MConnect Program visit our website at:
http://www.umich.edu/~purch/mconnect/index.html

VI. FISCAL STEWARDSHIP, RESPONSIBILITIES AND ACCOUNTABILITY

Departmental end users who purchase and/or authorize purchases of goods and services on behalf of the University are responsible and accountable for those transactions. The University has published a policy on Stewardship Responsibilities that may be accessed at http://www.umich.edu/~hraa/stewardship.htm.

A. SEGREGATION OF DUTIES

The University's system of internal controls requires that different individuals perform the various functions of the procurement process. For example, persons who are authorized to procure goods and services may not approve those transactions or be connected to the payment of those transactions.

B. VERIFICATION OF RECEIPT OF GOODS AND/OR SERVICES

It is University practice to have vendors direct shipments to either the location of the departmental end user or to one of several central receiving points. In either instance, it is the responsibility of the receiver to immediately inspect the shipment. Verification of receipt of goods and/or services must be made in a timely manner with notification to the M-Pathways worklist recipient. The worklist must then be reviewed and worked prior to payment of vendor invoice. *With the exception of P-Card, Non-PO voucher and Travel/Business Hosting transactions, the departmental end user is responsible for retaining proof of receipt.*

C. NON-COMPETITIVE PURCHASE AWARDS

A Non-Competitive Purchase Award is defined as the purchase of a product or service that is available from only one source, thereby exempting the purchase from the otherwise required competitive bidding policy of the University. This is done under exceptional and limited circumstances. In order to qualify for a non-competitive exemption, the faculty or staff member requesting the exemption must provide Purchasing Services with detailed written documentation explaining why bidding the product or service would be impracticable and assurance that the cost charged by the vendor is reasonable and customary. Non-Competitive Purchase Award forms may be accessed at http://www.umich.edu/~purch/purch/noncompetitive.html. Any necessary attachments must accompany the purchase requisition when it is sent to Purchasing Services. Such documentation should include specific technical requirements of the product or service, supportable evidence that due diligence has been performed in an objective market analysis, and proof of fair and reasonable pricing. Purchasing Services reserves the right to negotiate pricing or to solicit additional information and remains the final authority on all procurement issues.

D. DONATIONS AND CONTRIBUTIONS

Most donations and contributions of University funds are not permitted under the State of Michigan Constitution. The University Controller in Financial Operations must approve any exceptions in advance.

E. CONSISTENCY OF PRICING TO AGREEMENT

It is University policy to price transactions whenever practicable. Therefore departmental end users should obtain pricing from the vendor before creating purchase orders.

F. ADMINISTRATION OF PURCHASE ORDERS

The departmental end user is responsible for verifying that:

1. Pricing is consistent from the purchase order to the invoice, including line item pricing,

2. Goods and/or services have been received in acceptable form, and

3. The transaction is correctly recorded in the financial system (Statement of Activity).

If materials are to be returned to the vendor, the departmental end user must arrange for the return. It is the responsibility of the unit to verify that proper credit is made to the affected Chartfield combination and reported on the Statement of Activity.

G. COMPLIANCE RESPONSIBILITIES AND ACCOUNTABILITY

1. Report to Regents

The Office of Purchasing Services is required to submit a quarterly report to the Board of Regents detailing non-competitively bid purchases exceeding $5,000.

2. Oversight agency requirements

a) Purchases on Federally Sponsored Funds must be made in accordance with Circular A-21, Cost Principles for Educational Institutions (See US Government web site http://www.whitehouse.gov/OMB/circulars/a021/a021.html) and Financial Operations web site, (select Sponsored Programs), http://www.umich.edu/~finops/ for A-21 Guidelines.) Purchases for sponsored projects must also comply with the specific project's requirements.

b) Foreign Vendors must be designated as such as part of the Vendor Certification process. United States income tax may be required to be withheld.

H. TAXES

University purchases are exempt from the payment of Michigan sales and use tax. Several other states also allow this exemption. For copies of the Michigan tax exemption certificate, or for information concerning sales and use taxes of other states, contact Purchasing Services.

I. CONTRACTS AND AGREEMENTS

Purchasing Services maintains signature authority for all procurement contracts and agreements. Contracts and agreements requiring a University signature should be forwarded to Purchasing Services for processing along with the online requisition. All information pertaining to the contract or agreement must be included. Note that license agreements and maintenance contracts are specifically included with other types of contracts. These contracts or agreements are then forwarded to Purchasing Services for approval and may require approval from the Office of the General Counsel. Only those with specifically delegated

authority may sign contracts on the University's behalf; therefore departmental end users who sign contracts or agreements may incur a personal liability.

J. RESTRICTED COMMODITIES

End users must not purchase restricted items, e.g., laboratory animals, furniture, radioactive materials, etc., unless prior written approval is received from Purchasing Services. See the list of restricted/special commodities in Appendix following.

APPENDIX

Glossary

(1) Consultant:

An independent consultant relationship exists between the University and an individual when that individual is independent of University supervision and control with respect to the manner of performance.

(2) Employee:

An employer/employee relationship exists when the University has a right, whether exercised or not, to supervise and control the manner of performance as well as the result of the service.

(3) Gifts, Gratuities and Entertainment

Gifts, gratuities, and entertainment are defined as anything given as a result of a business relationship for which the recipient does not pay fair market value. This includes such things as meals, material goods, travel and accommodations, tickets to sporting or cultural events, golf outings, and any other merchandise or services.

(4) Non-competitive Procurement:

Non-competitive procurement is defined as the purchasing of a product or service that is available from only one source, thereby exempting the purchase from the otherwise required competitive bid policy of the University.

Restricted Commodities

The purchase of the following products and services requires specific Purchasing approval and/or procurement processes. They cannot be purchased directly by departments. Contact the appropriate buying team for further information, or see http://www.umich.edu/~purch/purch/teams.html.

- All building renovations/alterations (including items such as air conditioners)
- Architectural & Related Engineering Services
- Auditors
- Compressed Gases, Demurrage, Cylinder Deposits
- Consultants
- Donations
- Equipment Lease Agreements
- Ethyl Alcohol, Research Grade 190- and 200- proof (Ethanol)
- Firearms and Ammunition

- Furniture, Draperies and Carpet
- Interior Design Services
- Legal Services
- License Agreements
- Maintenance Agreements
- Personal Protective Devices
- Pest Control Services
- Pharmaceuticals
- Property Rental/Lease Agreements/Real Property Purchases
- Recruitment Advertising
- Security Systems
- Vehicles
- Waste handling, Containerization & Disposal

Related Standard Practice Guide sections:

Fiscal Responsibilities of a Project Director 500.1

Travel and Business Hosting Expense – Policy and Procedures 501.4-1

Cashier's Office (General Policies and Procedures) 502.1

Occupational Safety and Environmental Health Policy 605.01

Conflict of Interest 201.65-1