



Financial Services Audit Committee Communication

Date: June 15, 2018

To: Great Lakes Water Authority Audit Committee

From: Kathy Smith-Roy, Susan Kopinski, Special Projects Manager

Re: Proposed Procurement Policy Amendment for Compliance with the Code of Federal Regulations (CFR)

Background: GLWA receives federal funds passed through State Revolving Fund Loans, which requires compliance with the related Federal Regulations 2 CFR Part 200 and new citations in the new “*Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Grants*”. In addition to the information below, attached is the AICPA April 2018 summary compliance requirements.

Implementation is required by fiscal year end June 30, 2018.

Synopsis of Changes for Operating Federal programs as subrecipients of the State:

The major revision to the procurement requirements are the following five (5) methods of procurement with dollar thresholds associated to each method of procurement. Section 200.320 found below describes the five methods of procurements:

- 1) Micro-purchase (less than to \$3,500),
- 2) Small purchase (less than \$150,000),
- 3) Sealed bids purchases (more than \$150,000),
- 4) Competitive proposal purchases (more than \$150,000), and
- 5) Noncompetitive purchases (special circumstances which are applicable for all purchase levels).

All five procurement types must comply with the Procurement Standards in section 200.318, also found below, which can be summarized generally as follows:

- the purchase complies with the organization’s documented procedures in place,
- purchases are necessary,
- open competition (to the extent required by each method),
- a conflict of interest policy, and
- proper documentation for the purchases.

In section 200.88 simplified acquisitions threshold is used to describe small purchases and micro-purchases (200.67). Simplified acquisition threshold means the dollar amount below which an organization may purchase property or services using small purchase methods (less than \$150,000). Since micro-purchases are less than to \$3,000, micro-purchases can also use the simplified acquisition threshold. All purchases under the simplified acquisition threshold (including micro-purchases) require:

- fewer terms and conditions,
- have a lesser competition standard than purchases over the simplified acquisition threshold,
- can be solicited informally,
- and do not require a cost or price analysis.

For example, purchases of supplies or services under \$3,000 are treated as micro-purchases. If the organization entity considers the costs to be reasonable, the purchase orders may be awarded without soliciting any competitive quotations. No rate competitive quotations are necessary for the purchase. A cost or price analysis is also not required. The organization must, to the extent practicable, distribute these purchases equitable among qualified suppliers.

All purchases between \$3,000 and \$150,000 the small purchase procedures can used and is stated in section 200.320 (b) which describes the procedures as relatively simple and informal.

- It states that “price or rate quotations must be obtained from an adequate number of qualified sources.”
- It leaves the discretion of the organization’s written policy to determine the “adequate” number of qualified sources (i.e., any number greater than one) and the methods of methods of obtaining the price or rate quotations (e.g., it can be in writing, orally, vendor price list on website, or generated via online search engine).
- Section 200.323 also excludes the small purchases from any requirements for cost or price analysis.
 - For example, a purchase order for supplies in the amount \$10,000 can treated a small purchase order.
 - This purchase order requires a rate quote from at least two sources, which can be obtained in writing from two suppliers or research done on a public website. A cost or price analysis is not required.
 - In addition, if the supplies are of special quality that is offered by only one company or only one company can deliver in the time frame required for the project, the purchase order can be made under the sole source purchase provision in section 200.320 (f).

For purchases greater than the simplified acquisition threshold of \$150,000, either sealed bids or competitive proposals purchases apply. The sealed bid method is the preferred

method for procuring construction and is not a typical procurement method for local centers. Sealed bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, and is the lowest in price. For detail information please review the information below in section 200.320 Methods of procurement to be followed.

Competitive proposals are used to solicit multiple offers and can be awarded either a fixed price or cost-reimbursement type contract. Competitive proposals are for bids over \$500,000 and is generally used when conditions are not appropriate for the use of sealed bids. Requests for proposals (RFPs) are typical used for competitive proposals. For competitive proposals where qualification of the vendor is more important than the price of the service a request for qualification (RFQ) maybe more appropriate. For detail information please review the information below in section 200.320 Methods of procurement to be followed.

The final method of procurement is the sole source method. This procurement method is noncompetitive and should only be used for the following types of procurement:

- Unique type of service or product that can only be provided by a specific vendor,
- Public emergency where the service and product must be performed or produced without delayed.
- Upon the written request by the organization, the federal awarding agency or pass-through entity expressly authorized sole sourcing, or
- After solicitation of a number of sources, competition is determined to be inadequate.

Finally, to promote cost-effective and efficient procurement, organizations are encouraged to use shared services by entering into state/local intergovernmental agreements, or inter-entity agreements. This method is appropriate for common procurement or shared goods and services.

Analysis: The changes to the procurement policy and related procedures relating to Federal programs are significant and implementation is required by June 30, 2018 is required for compliance. A markup copy of the proposed implementation of this requirement are shown on the attached pages.

Proposed Action: Audit Committee recommends that the proposed revision to the GLWA Procurement Policy be forwarded to the GLWA Board of Directors for consideration and potential action at its next meeting in June 2018.

