



King County

**Metropolitan King County Council
Operating Budget, Fiscal Management, and
Select Issues Committee**

Agenda Item No.: 4

Date: July 9, 2008

Proposed No.: 2008-0327

Prepared By: Wendy Soo Hoo

STAFF REPORT

SUBJECT: An ORDINANCE allowing the use of direct vouchers for purchases not exceeding \$5,000, an increase over the existing limit of \$2,500.

BACKGROUND:

This proposed ordinance would allow for the use of direct vouchers for purchases below a new limit of \$5,000. Agencies currently use direct vouchers for purchases below a \$2,500 limit. The threshold for direct vouchers was last changed in 1996 (Ordinance 12138), which increased the limit from \$1,000 to \$2,500.

Under the direct voucher process, agencies can make purchases directly from the vendor and then submit a direct voucher form and invoice to Accounts Payable for processing. Only products and non-professional services can be purchased using a direct voucher.

Policies and procedures for use of direct vouchers are outlined in King County Code 4.16.095 and Executive Policy CON 7-2-1 (AEP). The existing King County Code provisions set the limit of \$2,500 for use of direct vouchers. The policy also requires an annual report be made to Council on direct voucher activity for each department as well as any inappropriate use of direct vouchers and corrective actions taken by the Executive. This report is no longer being submitted to Council. Instead, direct voucher activity reports are sent to the Executive's Internal Auditor, which is a requirement outlined in existing Executive procedures.

The existing Executive procedures also establish the following requirements:

- Items may not be purchased in excess of the established limit
- Invoices may not be split to make a purchase appear to be within the established limit

- Items used throughout the year may not be purchased on a weekly or monthly basis to avoid issuance of a term contract or purchase order
- Goods and services may not be purchased from vendors who are disqualified
- A best effort must be made to utilize minority/women-owned business enterprises or disadvantaged business enterprises
- A best effort must be made to procure recycled and recyclable products

ANALYSIS:

In 2007, the Revised Code of Washington 36.32.245 (Attachment 1) was amended to increase the limit for counties' non-competitive purchases from \$2,500 to \$5,000. According to the Executive, this increase reflects best practices to increase efficiencies and reduce costs associated with low dollar value purchases. The legislation would not affect the \$25,000 threshold for purchases that require vendors to be selected following advertising and competitive bidding processes.

Table 1: Overview of Procurement Requirements

	Direct Voucher	Three-Quote Process	Solicitation
Current Monetary Limit	Up to \$2,500	\$2,500-\$24,999	\$25,000+
<u>Proposed Monetary Limit</u>	<u>Up to \$5,000</u>	<u>\$5,000-\$24,999</u>	<u>\$25,000+</u>
Competitive Bid	No	Yes	Yes
Advertisement	No	No	Yes
Purchase Order	No (unless capital expenditure)	Yes	Yes

For procurement of goods or non-professional services, involving at least \$2,500 but less than \$25,000, buyers are required to contact at least three vendors for price quotes, maintain a record of each quotation and award to the low responsible bidder; or complete written bid specifications and solicit written sealed bids from appropriate vendors to ensure competition.

By increasing the limit for use of direct vouchers to \$5,000, fewer transactions will need to go through the three-quote process and will not need a formal purchase order or contract. This will result in reduced processing time and more efficient transactions for low-dollar value purchases.

Data was not available to precisely determine the number of transactions that would be affected. While some data was available for agencies using the Oracle system, data from the ARMS system would need to be calculated manually.¹ The Oracle data showed that 29,032 direct voucher transactions were made in 2007. The number of transactions between \$2,500 (the existing direct voucher limit) and \$5,000 (the

¹ Agencies using the Oracle financial system include Transit, Wastewater, and some divisions of the Department of Executive Services. All other agencies use the ARMS system.
 C:\Documents and Settings\cookge\Local Settings\Temporary Internet Files\OLK191\2008-0327 Direct Voucher Threshold 07-09-08 SR ws.doc

proposed limit) was 1,728 – under the limit proposed in this legislation, these 1,728 transactions would instead have been made using the more efficient direct voucher process. The total value of these Oracle transactions was about \$6.1 million. Again, these figures do not include purchases by agencies using the ARMS system, which is likely to contain substantially more transactions.

While the direct voucher system is more efficient than a contract or purchase order, there may also be reduced competition as agencies would not be required to obtain price quotes. However, a sample of other jurisdictions showed that a threshold of \$5,000 for noncompetitive purchases was not uncommon. In fact, Multnomah County and the cities of Seattle, Portland, and San Diego all have thresholds of \$5,000, while the city of San Francisco's threshold is set at \$10,000.

In addition, with less oversight of direct voucher transactions, there is some additional risk of inappropriate transactions. This risk is balanced by the small dollar value of each transaction, as well as implementation of oversight practices. Executive staff indicated that controls to detect or prevent inappropriate use include:

- Review of regular reports by Procurement and Contract Services to identify potential abuses (such as splitting purchases to avoid thresholds)
- Rules and guidelines on appropriate use of direct vouchers
- Annual reports on direct voucher activity submitted to the Internal Auditor

The Executive's Internal Auditor confirmed that the activity reports are submitted and reviewed regularly for inappropriate transactions. If inappropriate transactions are identified, the Internal Auditor sends letters to the departments instructing them to discontinue these transactions. The Internal Auditor indicated that this occurs very infrequently.

REASONABLENESS:

There appears to be very limited risk in increasing the limit for direct vouchers to \$5,000, with potential efficiencies to be gained by reducing the staff time involved in processing low-dollar value purchases. Approving this legislation would be a reasonable and prudent business decision.

INVITED:

Phil Sanders, Treasury Operations Manager, Finance & Business Operations
Bob Cowan, Director, Office of Management and Budget

ATTACHMENTS:

- 1) Proposed Motion 2008-0327
- 2) Executive's Transmittal Letter



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

July 2, 2008

Ordinance

Proposed No. 2008-0327.1

Sponsors Ferguson

1 AN ORDINANCE amending the threshold for competitive
 2 bidding requirements for the lease or purchase of tangible
 3 personal property or services and the threshold for direct
 4 voucher purchases; and amending Ordinance 12138,
 5 Section 8, and K.C.C. 4.16.030 and Ordinance 12138,
 6 Section 12, as amended, and K.C.C. 4.16.095.

8 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

9 SECTION 1. Ordinance 12138, Section 8, and K.C.C. 4.16.030 are hereby
 10 amended to read as follows:

11 Exceptions to bidding for the lease or purchase of tangible personal property and
 12 services or the solicitation of proposals and qualifications and subsequent purchase of
 13 either or both professional and(~~(/or/)) technical service. In accordance with the provisions
 14 of RCW 36.32.245(~~(, RCW)) and~~ 36.32.253 and this chapter, the executive is granted
 15 authority to let any contract, lease or purchase of tangible personal property or services
 16 (~~((~~), other than professional or technical services(~~(~~)), involving less than twenty-five
 17 thousand dollars, without advertisement and without formal, sealed bidding. The~~

Ordinance

18 executive is also granted the authority to let any contract for the purchase of professional
19 or technical services without a formal solicitation of proposal process where the value of
20 the contract to the consultant will not exceed twenty-five thousand dollars. When leasing
21 or purchasing tangible personal property or services ~~((t))~~, other than professional or
22 technical services~~((t))~~, between ~~((two))~~ five thousand ~~((five hundred))~~ dollars and twenty-
23 five thousand dollars, the executive shall be responsible for securing either telephone
24 ~~((and/))~~ or written quotations, or both, from vendors or prospective contractors to assure
25 establishment of a competitive price, and for awarding such contracts to the lowest
26 responsible bidder or proposer. When awarding a professional or technical services
27 contract having a value to the contractor of less than twenty-five thousand dollars, the
28 executive shall obtain proposals from similarly qualified proposers to ensure a
29 competitive process, and strive to select the most qualified proposer, having given due
30 regard to experience and expertise and other relevant factors~~((;))~~, and ~~((provided further,~~
31 ~~that))~~ after the award of any contract pursuant to this section, the bids or proposals
32 obtained shall be recorded and open to public inspection and shall be available by
33 telephone inquiry.

34 SECTION 2. Ordinance 12138, Section 12, as amended, and K.C.C. 4.16.095 are
35 hereby amended to read as follows:

36 A. Direct voucher purchases by individual departments and offices shall not
37 exceed ~~((two))~~ five thousand ~~((five hundred))~~ dollars without approval by ordinance
38 passed by the council.

39 B. It shall be the responsibility of the manager to report to the council no later
40 than April 30~~((th))~~ of each year direct voucher activity for the previous year on a

Ordinance

41 department-by-department basis. ((Said)) The report shall include, but not be limited to,
42 an identification of problems regarding inappropriate use of direct vouchering and
43 corrective actions implemented by the executive.
44

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Anne Noris

ATTEST:

Julia Patterson

APPROVED this ____ day of _____, _____.

Ron Sims

Attachments None



King County

Ron Sims
King County Executive
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CLERK
KING COUNTY COUNCIL

2008-327

June 10, 2008

The Honorable Julia Patterson
Chair, King County Council
Room 1200
COURTHOUSE

Dear Councilmember Patterson:

Enclosed is a proposed ordinance enabling the Finance and Business Operations Division to develop and implement new policies and procedures allowing the use of direct vouchers for purchases not exceeding the new threshold of \$5,000.

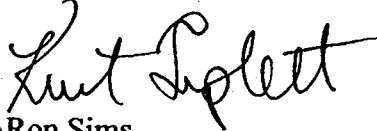
In 2007, the Revised Code of Washington 36.32.245 was amended to increase the non-competitive threshold from \$2,500 to \$5,000. This increase reflects the best practices in the industry to increase efficiencies and reduce costs associated with low dollar value purchases.

The proposed ordinance amends Ordinance 12138, Section 8 and King County Code 4.16.030 and Ordinance 12138, Section 12, as amended, and King County Code 4.16.092. Approval of this ordinance will apply to all King County agencies and offices. This change positions the county to take advantage of best practices and aligns the King County Code with state law.

The Honorable Julia Patterson
June 10, 2008
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If you have any questions about the draft ordinance, please contact Ken Guy, Director of the Finance and Business Operations Division, at 206-263-9254, or Karen Fitzthum, Goods and Services Supervisor, Procurement and Contract Services Section, at 206-263-9295.

Sincerely,



for Ron Sims
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Ross Baker, Chief of Staff
Saroja Reddy, Policy Staff Director
Anne Noris, Clerk of the Council
Frank Abe, Communications Director
Bob Cowan, Director, Office of Management and Budget
James J. Buck, County Administrative Officer, Department of Executive Services (DES)
Ken Guy, Director, Finance and Business Operations Division (FBOD), DES
David Leach, Manager, Procurement and Contract Services Section (PCSS), FBOD, DES
Karen Fitzthum, Goods and Services Supervisor, PCSS, FBOD, DES

CERTIFICATION OF ENROLLMENT

SENATE BILL 6075

Chapter 88, Laws of 2007

60th Legislature
2007 Regular Session

COMPETITIVE BID LIMITS

EFFECTIVE DATE: 07/22/07

Passed by the Senate March 13, 2007
YEAS 46 NAYS 0

BRAD OWEN

President of the Senate

Passed by the House April 4, 2007
YEAS 95 NAYS 0

FRANK CHOPP

Speaker of the House of Representatives

Approved April 18, 2007, 9:59 a.m.

CHRISTINE GREGOIRE

Governor of the State of Washington

CERTIFICATE

I, Thomas Hoemann, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SENATE BILL 6075** as passed by the Senate and the House of Representatives on the dates hereon set forth.

THOMAS HOEMANN

Secretary

FILED

April 18, 2007

Secretary of State
State of Washington

SENATE BILL 6075

Passed Legislature - 2007 Regular Session

State of Washington

60th Legislature

2007 Regular Session

By Senator Haugen

Read first time 02/19/2007. Referred to Committee on Government Operations & Elections.

1 AN ACT Relating to increasing competitive bid limits for the
2 purchase of materials, equipment, or supplies; and reenacting and
3 amending RCW 36.32.245.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 Sec. 1. RCW 36.32.245 and 1993 c 233 s 1 and 1993 c 198 s 7 are
6 each reenacted and amended to read as follows:

7 (1) No contract for the purchase of materials, equipment, or
8 supplies may be entered into by the county legislative authority or by
9 any elected or appointed officer of the county until after bids have
10 been submitted to the county. Bid specifications shall be in writing
11 and shall be filed with the clerk of the county legislative authority
12 for public inspection. An advertisement shall be published in the
13 official newspaper of the county stating the time and place where bids
14 will be opened, the time after which bids will not be received, the
15 materials, equipment, supplies, or services to be purchased, and that
16 the specifications may be seen at the office of the clerk of the county
17 legislative authority. The advertisement shall be published at least
18 once at least thirteen days prior to the last date upon which bids will
19 be received.

1 (2) The bids shall be in writing and filed with the clerk. The
2 bids shall be opened and read in public at the time and place named in
3 the advertisement. Contracts requiring competitive bidding under this
4 section may be awarded only to the lowest responsible bidder.
5 Immediately after the award is made, the bid quotations shall be
6 recorded and open to public inspection and shall be available by
7 telephone inquiry. Any or all bids may be rejected for good cause.

8 (3) For advertisement and formal sealed bidding to be dispensed
9 with as to purchases between ((two)) five thousand ((five-hundred)) and
10 twenty-five thousand dollars, the county legislative authority must use
11 the uniform process to award contracts as provided in RCW 39.04.190.
12 Advertisement and formal sealed bidding may be dispensed with as to
13 purchases of less than ((two)) five thousand ((five-hundred)) dollars
14 upon the order of the county legislative authority.

15 (4) This section does not apply to performance-based contracts, as
16 defined in RCW 39.35A.020((+3)) (4), that are negotiated under chapter
17 39.35A RCW; or contracts and purchases for the printing of election
18 ballots, voting machine labels, and all other election material
19 containing the names of candidates and ballot titles.

20 (5) Nothing in this section shall prohibit the legislative
21 authority of any county from allowing for preferential purchase of
22 products made from recycled materials or products that may be recycled
23 or reused.

24 (6) This section does not apply to contracting for public defender
25 services by a county.

Passed by the Senate March 13, 2007.

Passed by the House April 4, 2007.

Approved by the Governor April 18, 2007.

Filed in Office of Secretary of State April 18, 2007.