THE PURCHASING CYCLE AT THE UNIVERSITY OF TORONTO

Understanding the Process and Components

The Purchasing Cycle at the University of Toronto (UofT)

The processing of purchase related documents represents a significant portion of all transaction processing at the University of Toronto (UofT). In a lot of cases, the processing begins right at the "ordering" stage. Training sessions, as well as reference materials, have been developed to assist you in the processing of all types of purchase transactions. This document has been developed to provide you with an overall understanding of the components of the Purchasing Cycle here at UofT as well as the UofT policies that sometimes drive the purchasing decisions.

The objectives of this document are to outline:

- the components of the Purchasing Cycle, generally and specifically here at UofT

- the policies and guidelines impacting some of the components of the Purchasing Cycle at UofT

The document has been organized into two main sections:

Our goal in preparing this document was not to be all encompassing with respect to the information presented, but rather to introduce you to the Purchasing policies and to provide you with some reference points where additional information is available.
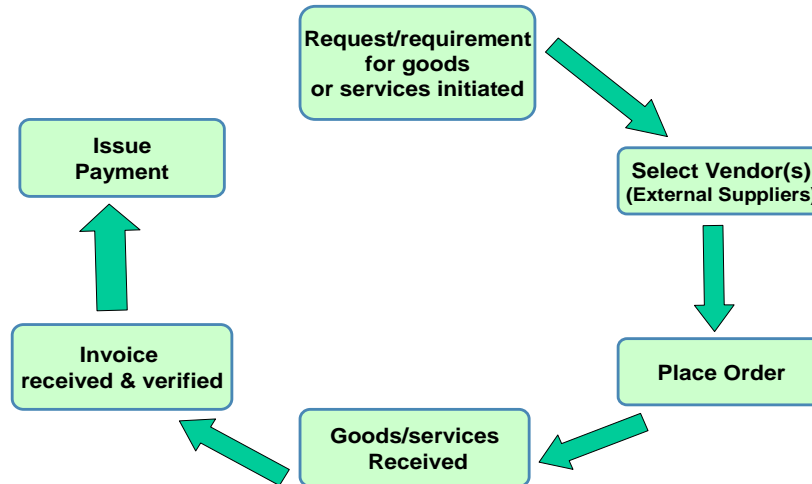
Suggestions for future revisions and updates are welcome and can be forwarded to my attention at lorena.gaudio@utoronto.ca .

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Section 1 – Overview of the University's Purchasing Cycle

The University's Purchasing Cycle involves six distinct steps, which begin the moment a business requirement has identified the need to purchase a good or service and ends with the payment of the invoice to the vendor.

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    ┌──────────────────┐
    │ Request/requirement │
    │    for goods      │ ──→ ┌──────────────────┐
    │ or services initiated │    │  Select Vendor(s)  │
    └──────────────────┘       │ (External Suppliers) │
                               └──────────────────┘
    ┌──────────────┐                    │
    │    Issue     │                    ↓
    │   Payment    │           ┌──────────────┐
    └──────────────┘           │  Place Order  │
         ↑                     └──────────────┘
    ┌──────────────────┐              │
    │     Invoice      │              ↓
    │ received & verified │ ←── ┌──────────────────┐
    └──────────────────┘       │  Goods/services   │
                               │    Received       │
                               └──────────────────┘
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Step 1 – Initiate a Request/Requirement for Goods or Services

➔ Identify the business requirement for the purchase

➔ Estimate the cost of the purchase, and ensure that funding is available

Step 2 – Select Vendor(s) from Available External Suppliers

➔ Identify potential suppliers

➔ Review the agreed upon terms of sale, warranties, and return policies

➔ Depending on the dollar value of the purchase, consider the financial viability of the supplier

Step 3 – Place Order

➔ Depending on the size and/or nature of the order a written confirmation of the terms of agreement may be required

Step 4 – Goods/Services Received

➔ Ensure that terms of purchase/sale, such as agreed upon quantity and quality, are met

Step 5 – Invoice Received and Verified

➔ Ensure information on the invoice, such as price, quantity and quality, match the information contained in the original purchase agreement and/or the information noted when the goods/services were received

➔ Obtain approval to issue invoice payment

Step 6 – Issue Payment

➔ Identify the source of funding, which should be the same as when you initiated the purchase, and ensure that sufficient funds are available to cover the payment

➔ Issue payment to supplier

Section 2 – Breakdown of the University's Purchasing Cycle

This section provides an in depth breakdown of the University's Purchasing Cycle.

For more information, refer to the University's Purchasing Policy located in the Guide to Financial Management (GTFM) http://www.finance.utoronto.ca/gtfm/purchpay/purch/policy.htm.

Step 1 - Initiate Request/Requirement for Goods or Services

➔ **Identify the Business Requirement for the Purchase:**

The Purchasing Policy states certain criteria must be met when purchasing using University funds:

The purchase must be:

- for University business purposes
- the **best value** for the funds allocated for the purchase
- made through a **fair and open process** when requesting, receiving, and evaluating quotations and tenders from potential suppliers

➔ **Estimate Purchase Cost and Ensure Funding is Available:**

In most cases, the cost of the purchase will determine the method of payment, as well as the business processes used to process the purchase transaction.

For example, if the purchase cost is between $25,000 and $99,999.99, a minimum of three written quotations are required from qualified vendors. In contrast, purchases less than $4,999 do not require written agreements and are recommended to be processed through uSOURCE, the University's online e-procurement system.

Some funding sources (e.g., granting agencies, donors) may also have conditions attached to their funding that may restrict the use of the specific funds for all or part of a purchase. This needs to be considered when determining if there is funding available for the purchase.

Step 2 - Select Vendor(s) from Available External Suppliers

➔ **Identify Potential Suppliers**

In transactions **less than $5,000**, it is recommended that the vendor used in a purchase transaction be already set up in FIS. When the purchase is **greater than $5,000**, the University's policy requires that the selected vendor have a Vendor Master Record already set up in FIS. This benefits both the faculty/division as well as the University.

Note: All FIS commercial vendor accounts (Canadian and Foreign) are set up by Procurement, and only after being approved as a U of T vendor.

Benefits to Faculty or Division:

- Greater assurance that the vendor is a legitimate entity with an acceptable level of financial stability

- Vendor has an assigned FIS account, making it easier to process financial transactions

  Note: Credit memos issued by vendors (in lieu of cash refund) can only be processed against vendor accounts established in FIS.

Benefits to the University:

Using approved vendors who are set in FIS enables Procurement to capture all historical data relating to purchases made.

This allows the University to:

- negotiate better payment terms by utilizing discounts and special pricing

- assist with Development and University Relations activities

To set up a new vendor, complete the "**New Vendor Account Request"** form located under the forms tab on the Procurement site.

To access the Procurement website, click the following link:

http://www.procurement.utoronto.ca/

Certain vendors are classified as "Approved Suppliers".

Under certain circumstances, **only** vendors vetted and set up in FIS by the Procurement Services Department can be used in a purchase transaction. These vendors are known as **Approved Suppliers.**

The following circumstances require using only **Approved Suppliers**:

- purchases exceeding $25 000

- purchases of radioactive material

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For more information on "Approved Suppliers", visit the Procurement website**:**

- http://www.procurement.utoronto.ca/programs-and-services/approved-suppliers

➜ **Review Terms of Sale, Warranties and Return Policies**

- Especially important if the chosen vendor has not been approved by Procurement and setup in FIS

- Ensure that the financial interests of the University are met in the event that problems arise with the purchase

➜ **Financial Viability of Supplier**

Depending on the dollar value of the purchase, the financial viability of the supplier may need to be considered. For large dollar value purchases (e.g., purchases over $25,000) the financial viability of the supplier to meet agreed delivery terms and warranties plays an important role when choosing a vendor.

- Especially important if the chosen vendor is not been approved by Procurement and setup in FIS

- Ensure that the financial interests of the University are met in the event that problems arise with the purchase

Step 3 - Place Order

➜ **Obtain Written Confirmation of the Terms of Agreement**

The process of placing the order is typically driven either by the **dollar value** or, the **nature of the purchase** (e.g., radioactive materials). Some orders may require written confirmations of the terms of the agreement in the form of a contract or purchase order.

The Procurement website provides a breakdown of how to purchase goods or services for each price range and type of purchase.

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Reference Table (How to Purchase Goods or Services):

COMPETITIVE PROCUREMENT (Purchasing Goods or Non-Consulting Services)			
THRESHOLDS	**PURCHASE ORDER**	**DOCUMENTATION**	**ACCOUNTABILITY**
$100,000 +	YES	COMPETITIVE BID PROCESS (e.g., RFP, RFSQ, RFQ)	PROCUREMENT SERVICES
$25,000 - $99,999	YES	3 WRITTEN QUOTES (Invitational)	YOUR DEPARTMENT
$5,000 - $24,999	YES	2 VERBAL or WRITTEN QUOTES (Informal)	YOUR DEPARTMENT
$0 - $4,999	OPTIONAL (Dept. Issued PO)	OPTIONAL	YOUR DEPARTMENT

For more information, visit the site below:

http://www.procurement.utoronto.ca/programs-and-services/purchasing-goods-services

In some instances, all the steps in the "ordering" process may occur simultaneously. In other words, payment for a good/service may be made at the same time as when the goods/services and corresponding invoice are received (e.g., P-Card). In these circumstances, the payment option selected will drive the rest of the process.

In the following circumstances, all the stages in the Purchasing Cycle occur simultaneously.

Click the corresponding links to learn more:

- **Petty Cash Fund:**
  http://finance.utoronto.ca/policies/gtfm/purchasing-and-payments-to-vendors/petty-cash/
- **Imprest Expenditure Account:**
  http://finance.utoronto.ca/policies/gtfm/purchasing-and-payments-to-vendors/imprest-expenditure-bank-account/
- **Purchasing Card:**
  http://www.procurement.utoronto.ca/programs-and-services/purchasing-card
- **Travel Card:**
  http://www.procurement.utoronto.ca/programs-and-services/travel-services

Another recommended payment option is uSOURCE; the University's online shopping system used to streamline the process of placing, receiving and paying for an order.

Details on using the uSOURCE system can be found on the Procurement website.

http://www.procurement.utoronto.ca/programs-and-services/usource

Step 4 – Goods/Services Received

➔ **Ensure Terms of Purchase/Sale are met**

When the goods/services are received, confirmation that the terms of the order/contract were met should be made. In the case of "goods received", typically a packing slip or receiving report is included with the shipment, detailing the contents of the delivered goods. The packing slip or receiving report is used as the "official" confirmation that the terms of the original order were met, and that payment can proceed.

For more information on procedures for when goods are received, visit the following GTFM site:

http://finance.utoronto.ca/policies/gtfm/purchasing-and-payments-to-vendors/purchase-order-invoices/

Step 5 - Invoice received and verified

➔ **Ensure Goods/Services Received match Original Purchase Agreement**

The department purchasing the goods/services has a duty to ensure that the University **only pays for items received/consumed** and **pays a fair price** for those items. The Guide to Financial Management (GTFM) outlines how to address situations where the invoice does not match the terms of the original order (also known as "Irregular Invoices").

For GTFM guideline on how to handle "Irregular Invoices", refer to the link below:

http://finance.utoronto.ca/policies/gtfm/purchasing-and-payments-to-vendors/certified-invoices/#irregular

➔ **Obtain Approval to Issue Invoice Payment**

Prior to issuing an invoice payment, the individual or department responsible for funding may be required to formally approve the payment.

The University's approval process is driven by:

(1)   the global University of Toronto approval policy

(2)   departmentally imposed approval processes

Learn more about approval guidelines outlined in the GTFM:

http://finance.utoronto.ca/policies/gtfm/purchasing-and-payments-to-vendors/

Step 6 - Issue Payment

➔ **Identify Funding Source and Ensure Available Funds are Sufficient for Payment**

Prior to issuing a payment, check the Fund Center or Fund Center/Fund combination to see if there are sufficient funds available for the transaction. In the case of purchases that utilize Purchase Orders, funds would already be committed for the purchase when the Purchase Order/Purchase Requisition is created.

When processing an invoice payment, it is also important to pay close attention of the tax code used when processing the transaction in FIS. On most transactions, the University receives a 67% GST **rebate and 78% OVAT rebate** on all taxes paid on purchases. This means that the University pays the vendor the entire amount of the tax included in the invoiced amount, and then requests the Government for 72.5% (average of 67% and 78%) of the tax amount back. This means that the effective tax rate that impacts our departmental accounts is just 3.41% instead of the full 13%.

Departments see the impact of this "rebate" immediately in the amounts charged to their accounts.

➔ **Issue Payment**

The process for issuing payment will depend on whether or not a Purchase Order is created.

When issuing payments to vendors after approval, the payment should be made:

(1) **promptly** to avoid penalties

(2) with due **consideration of refunds and credits** owed by the vendor to the University

In some circumstances, goods/services may be purchased from vendors without creating an FIS purchase order. In these instances, when requesting an invoice for payment you must request a "**certified**" invoice.

Visit the "Certified Invoices" section of the GTFM to learn more:

http://finance.utoronto.ca/policies/gtfm/purchasing-and-payments-to-vendors/certified-invoices/