



# **Procurement 101: Purchase Order Fundamentals**

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# **Session Topics**

1. What is a purchase order?
2. Why do we use purchase orders?
3. Types of purchase orders
4. Purchasing/procurement policy
5. Audit issues and concerns
6. Q&A

# **What is a Purchase Order?**

- Serves as the Fiscal Officer's Certificate
- Formal request/authorization to expend funds
- Formally restricts/encumbers current year budget by the amount of transaction
- Documents shipping, invoicing and FEIN details

# What is a Purchase Order? (cont'd)

- **Serves as the Fiscal Officer's Certificate**
  - ORC Chapter 5705.41(D):
    - “No subdivision or taxing unit shall: (1) ... make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer ...”

# What is a Purchase Order? (cont'd)

- **Formal Request or Authorization to expend funds**
  - Documents vendor information
  - Identifies/describes items or services to be purchased
  - Provides fund and general ledger account information
  - May be used to associate with project codes

# What is a Purchase Order? (cont'd)

- **Restricts/Encumbers Budget**

- Sets aside and restricts (encumbers) identified budget amount in order to satisfy the obligation
- Unspent balance may be carried over into succeeding years if liability exists
- Ensures budgetary compliance by limiting approved spending to the amount on the PO

# What is a Purchase Order? (cont'd)

- **Documents shipping, invoicing and FEIN details**
  - Vendor information is displayed on the face of the PO
    - Vendor Name, Address and Vendor Number
  - PO provides the public organization's info:
    - Shipping address
    - Invoicing address
    - Federal Tax ID number

# **Question #1:**

Which of the following pieces of information are not provided by the purchase order?

1. General ledger account number
2. Details about the items or services being purchased
3. Vendor's FEIN
4. Fiscal officers' certification



# Why Are Purchase Orders Used?

- Ensure that the appropriate level of management has authorized the spending
- Document the specific items or services being purchased
- Provide vendor with assurance that they will be paid for goods and services provided to the public entity.
- Ensure budgetary compliance (prevent overspending)

# Why Are Purchase Orders Used?

## (cont'd)

- Assists Accounts Payable to associate invoices to specific general ledger accounts
- Allow prior-year budgets that haven't been spent to be carried over into succeeding year
- Ensure compliance with ORD 5705.41(D) and OAC 117-2-02(C)(2)

## **Question #2:**

Which of the following are not reasons for using purchase orders?

1. PO's document the specific items being purchased
2. It ensures that the vendor will provide the goods or services
3. It assists in the accounts payable process
4. It permits prior-year budget to be carried over into current year

# **Types of Purchase Orders**

- There are three (3) general types of purchase orders:
  - Standard
  - Blanket
  - Super Blanket

# Types of Purchase Orders (cont'd)

- **Standard Purchase Order**

- A standard purchase order is used for:
  - Normal, routine purchases where a single vendor and specific items and quantities are ordered.
- Attributes of a standard purchase order:
  - Specific items, quantities and unit costs
  - Single vendor
  - Expires when the contract or order is filled or cancelled.
  - May include multiple funds and appropriation accounts
  - No dollar limit, the limit is the amount certified for the PO.

# Types of Purchase Orders (cont'd)

- **Blanket Purchase Order**
  - A blanket purchase order is used for:
    - The purchase of a variety of items over a specified period of time from a variety of vendors.
  - Attributes of a standard purchase order:
    - Single or multiple vendors
    - No specific items, quantities or unit costs
    - Dollar amount set by ordinance or resolution of the governing board – requires majority vote
    - Limited to the current year
    - Must be labeled 'Blanket Purchase Order'

# Types of Purchase Orders (cont'd)

- **Super Blanket Purchase Order**

- A super blanket purchase order is used for:
  - Certain types of expenditures that are recurring and reasonably predictable
- Attributes of a standard purchase order:
  - Single or multiple vendors
  - Limited to one expenditure code per SBPO
  - Dollar amount limit is the amount appropriated to that line item budget
  - Cannot extend beyond the current fiscal year
  - Multiple SBPO may exist per account code
  - Limited to specific goods and services

# Types of Purchase Orders (cont'd)

- **Super Blanket Purchase Order**

- A super blanket purchase order may be used for:

- Services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor or appraiser by or on behalf of the subdivision or contracting authority
    - Fuel oil, gasoline, diesel, food items, roadway materials and utilities
    - Any purchases exempt from competitive bidding under ORC §125.04
    - Any other specific expenditure that is a recurring and reasonably predictable operating expense



# Types of Purchase Orders (cont'd)

- **'Then & Now' Purchase Order**

- Purchase orders must be dated on or before: (1) the invoice date; (2) the date the services are performed; or (3) the date the liability to pay is incurred.
- In the event the PO is post-dated, it is technically in violation of state law and is subject to an audit finding.
- The AOS or IPA will test compliance with this as a part of the annual audit process.

# Types of Purchase Orders (cont'd)

- **'Then & Now' Purchase Order**

- In accordance with ORC §5705.41(D)(2), the fiscal officer can issue a 'Then & Now' certification which certifies that the funds were available or in the process of collection when the transaction took place and now (when the PO was issued). This is limited to \$3,000 to all non-county entities (counties are limited to \$100).

## **Question #3:**

Which type of purchase orders can not be used for multiple vendors?

1. Standard Purchase Order
2. Blanket Purchase Order
3. Super Blanket Purchase Order
4. Then & Now Purchase Orders

# Purchasing & Procurement Policy

- Organizations should have a purchasing or procurement policy which addresses the following:
  - General purchasing standards to include:
    - Organization's competitive bid threshold and requirements
    - Definitions of key terms, including 'Lowest & Best' and 'Qualified Vendor' to ensure consistent application of policy.
    - Exceptions to competitive bidding
    - Credit/P-Card purchases
    - Emergency purchases

# **Purchasing & Procurement Policy**

## **(cont'd)**

- Specific policies that address:
  - Requirement that a PO be issued prior to purchasing goods and services or entering into a contract
  - Emergency purchases
  - General procurement process with individual steps and responsibilities identified
  - Bid and performance bonds
  - Travel and expense reimbursements

## **Question #4:**

Which of the following is not typically included in a purchasing/procurement policy?

1. Requirement that PO be issued prior to transaction taking place
2. Emergency purchases
3. Bid and Performance Bonds
4. Requirement that vendor payments be made via ACH funds

# Audit Issues & Concerns

- Purchase order is dated after the invoice date or date of obligation.
- Then & Now is relied upon too heavily to remain in compliance with 5705.41D. Then & Now's are meant to be used sparingly and in emergency situations.
- Then & Now is “not” approved by the governing board, within 30 days.

# Audit Issues & Concerns

(cont'd)

- Purchasing policy is not followed and is not effectively communicated to departments
- The entity does not take the time to educate all employees and departments involved. Departments outside the finance office view the purchasing process as an inconvenience. Training can help create more understanding and cooperation. Employees should understand the why.



## **Question #5:**

Which of the following is not an audit issue or concern?

1. Purchasing policy is not followed
2. Purchase orders are dated before the invoice date
3. Purchasing and other administrative policies are not communicated entity-wide
4. 'Then & Now' purchase orders are not approved by governing body within 30 days



## **Contact Information**

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