

10 Steps to the Purchase of Products or Services *Revisited*

*New Vendors
Independent Contractors
Insurance Requirements*

Presented by....

Accounts Payable
Purchasing
Office of Risk Management & Insurance

November 3, 2010



Plan for Today

- Review the 10 Steps to the Purchase of Products or Services
- Discuss typical “snags” in the process & tips for overcoming
- Determine other ways We can help You

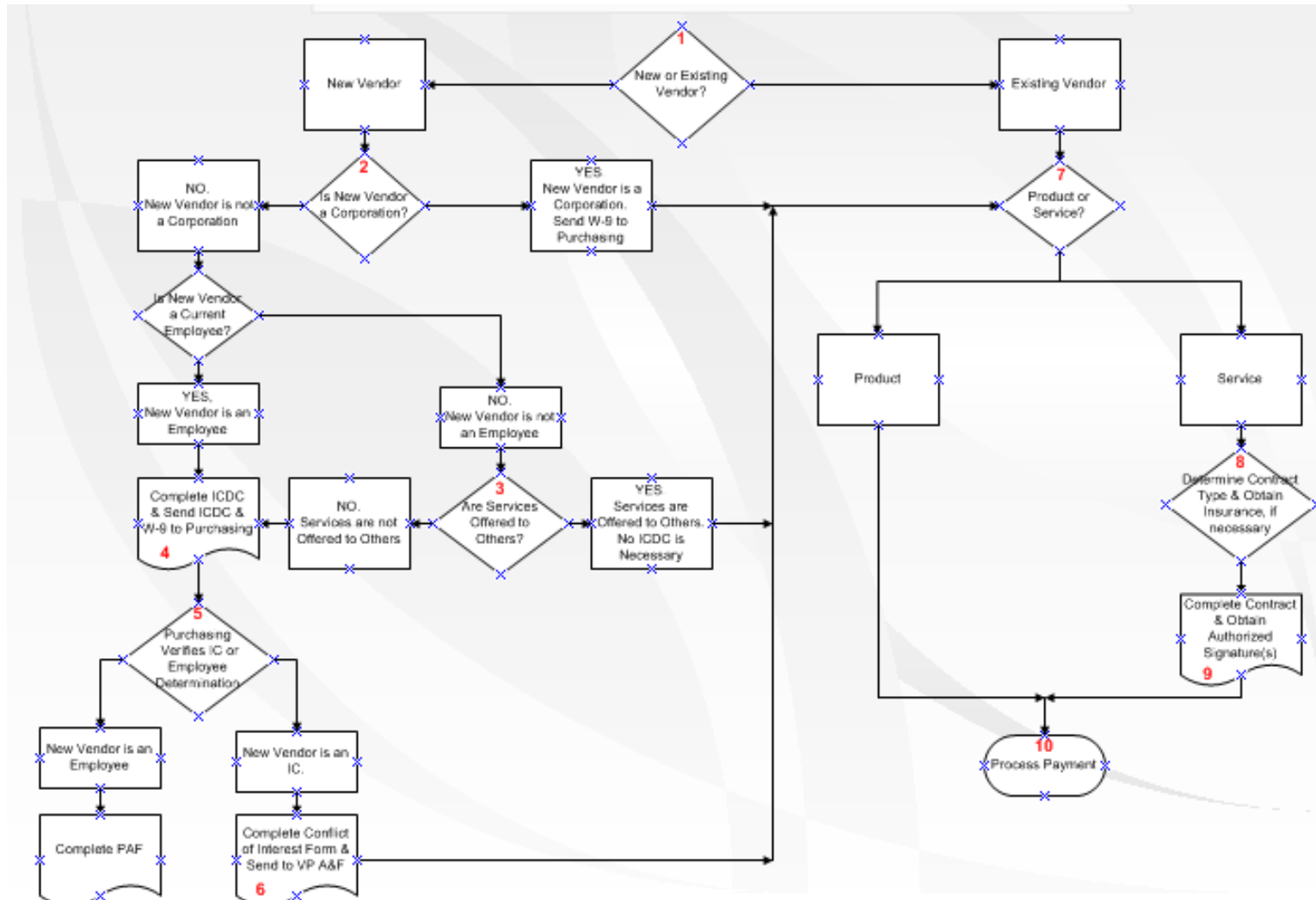
Why Do We Care?

- Ensure compliance with IRS regulations & prevent fines for non-compliance
- Protect the University in case of claims
 - General Liability (bodily injury & property damage)
 - Workers' Compensation
 - Professional Liability
- Minimize “special” agreements
- Maximize the use of everyone's time

Keep in mind that....

- Purchase of Products & Services must be in accordance with Purchasing Policies:
 - Board Policy Subpart 4-2
 - Business Policy Letter 2004:05
- Planning ahead & adherence to policies & “Steps” will help prevent “snags”

The Process as a Whole

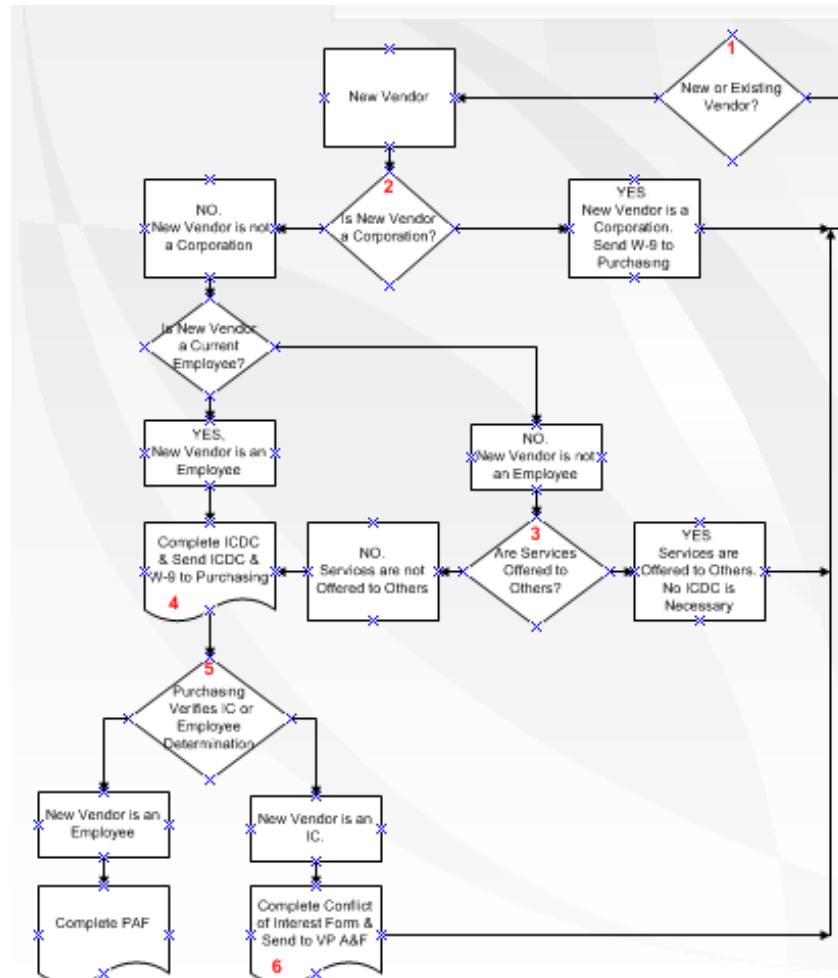




Two Parts to the Process

- For purposes of today's discussion, we have split the Process into two parts:
 - Vendor Process
 - Purchasing Process
- Though we've laid the steps out sequentially, some steps in the two processes **MAY** occur simultaneously, depending on the circumstances

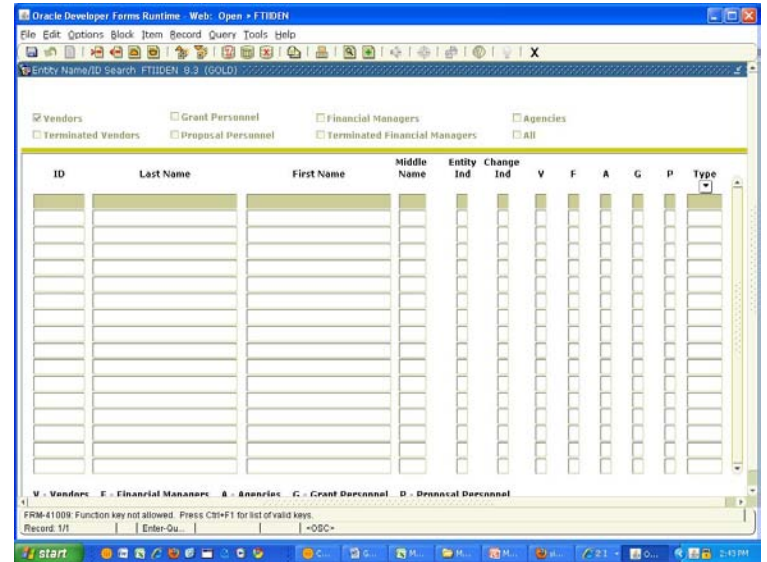
The Vendor Process



Step 1: New or Existing Vendor?

Determine whether Vendor is a New or Existing Vendor

- Not sure? Use FTIIDEN
- If Existing Vendor, proceed to Step 7
- If New Vendor, proceed to Step 2



The screenshot displays the Oracle Developer Forms Runtime interface for a vendor search. The window title is "Oracle Developer Forms Runtime - Web: Open > FTIIDEN". The menu bar includes "File", "Edit", "Options", "Block", "Item", "Record", "Query", "Tools", and "Help". The address bar shows "Entry Name/ID Search: FTIIDEN 9.3 (00LO)".

The main area contains a search form with several checkboxes for filtering results:

- Vendors
- Grant Personnel
- Financial Managers
- Agencies
- Terminated Vendors
- Proposal Personnel
- Terminated Financial Managers
- All

Below the checkboxes is a table with the following columns: ID, Last Name, First Name, Middle Name, Entity Ind, Change Ind, V, F, A, G, P, and Type. The table is currently empty.

At the bottom of the window, there is a status bar with the following text: "V - Vendors, F - Financial Managers, A - Agencies, C - Grant Personnel, D - Nongrant Personnel", "FRM-41008: Function key not allowed. Press Ctrl+F1 for list of valid keys.", "Record 1/1", "Enter-Ou", and "-ODC-". The Windows taskbar at the bottom shows the "start" button and several application icons.

Step 2: Business or Individual?

Determine whether the New Vendor is a business or an individual

- If a business (Corp., Co., LLC, or PC) , no Independent Contractor Determination Checklist (ICDC) is necessary; proceed to Step 7
- If an individual AND a current employee, proceed to Step 4
- If an individual AND NOT a current employee, proceed to Step 3

Step 3: Products or Services to Others?

Determine whether the individual New Vendor is in business (“hanging out his/her shingle”) to offer these products or services to others


– (Or is this individual just doing this occasionally “on the side”)

- If Yes, proceed to Step 7
- If No, proceed to Step 4

Step 4: ICDC

- Complete the Independent Contractor Determination Checklist:

<http://www.ferris.edu/htmls/administration/purchase/Documents/Forms/ICDC-2010.pdf>
- Use your best judgment in answering the questions
- Send completed form to Purchasing



FERRIS STATE UNIVERSITY
PURCHASING DEPARTMENT

**Independent Contractor
Determination Checklist**

Part I Service Provider

Name: _____

Part II IRS Common Law Guidelines

	Yes	Employee Classification	No	Independent Contractor Classification
Behavioral Control: (Check all that apply)				
1. Will you provide instructions about when, where, and how the work is to be done?	<input type="checkbox"/>	Complies with the work instructions.	<input type="checkbox"/>	Determines own schedule, location, and tasks.
2. Will you provide training to the individual?	<input type="checkbox"/>	Trained by Ferris State University	<input type="checkbox"/>	Responsible for own training.
3. Will you require the individual to perform the services personally?	<input type="checkbox"/>	Must be performed personally.	<input type="checkbox"/>	Can be performed by helper employees or subcontractors.
4. Will Ferris establish the hours of work?	<input type="checkbox"/>	Ferris sets the hours.	<input type="checkbox"/>	Responsible for his/her own schedule.
5. Will Ferris require the services full-time during the duration of the contract?	<input type="checkbox"/>	Ferris requires full-time commitment.	<input type="checkbox"/>	Can work for others during period of the contract.
6. Will the work be performed on Ferris' premises?	<input type="checkbox"/>	Performed at Ferris.	<input type="checkbox"/>	Performed at the individual's place of business.
7. Will Ferris require progress reports on a regular basis?	<input type="checkbox"/>	Ferris Requires Reports.	<input type="checkbox"/>	Reports are not required unless stipulated in contract.
Financial Control: (Check all that apply)	<input type="checkbox"/>		<input type="checkbox"/>	
8. Will the contract be based on hourly, weekly, or monthly pay?	<input type="checkbox"/>	Ferris pays on an hourly, weekly, or monthly basis.	<input type="checkbox"/>	Determines own schedule, location, and tasks.
9. Will Ferris pay the worker's business and/or traveling expenses?	<input type="checkbox"/>	Ferris pays the business and traveling expenses.	<input type="checkbox"/>	Responsible for all expenses and can maximize profit by managing costs.
10. Will Ferris furnish equipment, materials, tools, and/or supplies?	<input type="checkbox"/>	Ferris furnishes equipment, materials, tools, and/or supplies.	<input type="checkbox"/>	Individual furnishes everything.
11. Is the service provider's office in a home?	<input type="checkbox"/>	Works at home.	<input type="checkbox"/>	Has office space at fair market value from an unrelated party and/or has employees as a workforce for his/her projects. Has significant investment in business.
Relationship: (Check all that apply)	<input type="checkbox"/>		<input type="checkbox"/>	
12. Does the service provider work for one firm at a time?	<input type="checkbox"/>	Works for only one firm at a time.	<input type="checkbox"/>	Performs services for multiple unrelated customers at the same time.
13. Does the service provider make his/her services known to the public primarily through word of mouth?	<input type="checkbox"/>	Makes his/her services known by word of mouth.	<input type="checkbox"/>	Advertises his/her business in publications, yellow pages, web, etc.
14. Does Ferris have the right to discharge the worker?	<input type="checkbox"/>	The individual can terminate at any time.	<input type="checkbox"/>	Cannot be fired if he/she produces a result based on the specifications of the contract.
15. Does the individual have the right to end his/her relationship with Ferris at any time without incurring liability?	<input type="checkbox"/>	The individual can terminate at any time.	<input type="checkbox"/>	Cannot be fired if he/she produces a result based on the specifications of the contract.
16. Does Ferris anticipate a continuing relationship?	<input type="checkbox"/>	Ferris anticipates a continuing relationship.	<input type="checkbox"/>	A continuing relationship is not anticipated. Projects will be awarded only when the need arises, and will be based on bids and specifications.
17. Will you integrate the worker's services into your daily operations by providing email, an office, and requiring attendance at meetings?	<input type="checkbox"/>	Ferris anticipates a continuing relationship.	<input type="checkbox"/>	Independent of unit activities.

Part III Evaluation and Certification

Based on the accompanying checklist and my knowledge of the proposed contract, it is my determination that the individual should be classified as an:

Employee Independent Contractor

I acknowledge that Ferris State University may hold me and financially responsible for any taxes, interest, or penalties that the Internal Revenue Service or other regulatory bodies might assess due to misclassification.

Signature: _____ Date: ____/____/____

Name: _____ Title/Unit: _____

Phone: (____) _____ E-mail: _____

Return To: Ferris State University
Purchasing Office
400 Oak Street, Suite 200
Big Rapids, MI 49307

Phone: (231) 581-2166
Fax: (231) 581-3802

Revised: 20-JAN-10
Purchasing Office

For Office Use Only

Approved Denied

Date: ____/____/____

Signature: _____

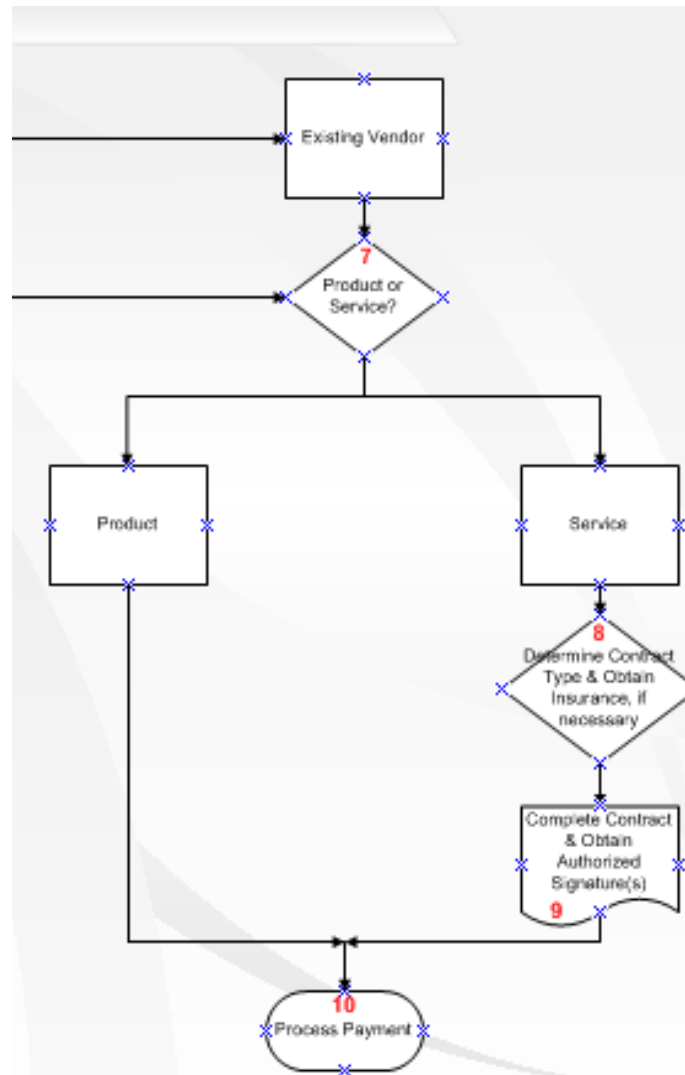
Step 5: Purchasing Reviews ICDC

- Purchasing reviews completed ICDC and verifies determination
- Purchasing notifies you via e-mail of determination
- If Vendor is determined to be an employee, use a PAF to pay for services
- If Vendor qualifies as Independent Contractor, proceed to Step 6

Step 6: W-9

- Obtain a W-9 for the Vendor & send to Purchasing
- Complete a Conflict of Interest, if necessary
- Proceed to Step 7

The Purchasing Process



Step 7: Product or Services?

- If you are purchasing a product WITHOUT services, proceed to Step 10
- If you are purchasing services (or a product WITH services), proceed to Step 8

Step 8: Purchase of Services

- ALL purchases of services require an agreement/contract!
 - Short Form Service Provider Agreement
 - Standard Service Provider Agreement
 - Campus Contract
 - Vendor-produced Contract
 - General Counsel-created Contract
- All of these agreements/contracts require the vendor to provide evidence of insurance EXCEPT the Short Form Service Provider Agreement

Insurance Requirements

- List of insurance requirements:
[http://www.ferris.edu/htmls/administration/purchase/Documents/Certificate of Insurance Requirements.xls](http://www.ferris.edu/htmls/administration/purchase/Documents/Certificate%20of%20Insurance%20Requirements.xls)

COVERAGE REQUIREMENTS		
NOTE: Requirements based on M.U.S.I.C. Recommendations. For any exceptions, contact Risk Management. We require your insurance carrier to have an AM Best Rating of A- VIII or better		
ACTIVITY or SERVICE	ACTIVITY or SERVICE COST	
Amusement & Game Activities	Workers' Compensation with Employers' Liability	Statutory Limits & EL \$1,000,000
Inflatables	Commercial General Liability	\$1,000,000 per occurrence & \$2,000,000 aggregate
Mechanical Bulls	Professional Liability	\$2,000,000 per occurrence & \$2,000,000 aggregate
Gyroscopes	Auto Liability	\$1,000,000
Ferris wheels	Excess Liability (umbrella)	\$5,000,000 per occurrence
Dunk tanks	University Added as Additional Insured	
NOTE: Participant Waivers required for all amusement & game activities		
Artists or Performers	Workers' Compensation with Employers' Liability	Statutory Limits & EL \$1,000,000
	Commercial General Liability	\$1,000,000 per occurrence & \$2,000,000 aggregate
	Professional Liability	\$2,000,000 per occurrence & \$2,000,000 aggregate
	Auto Liability	\$1,000,000
	Excess Liability (umbrella)	\$1,000,000 per occurrence
	University Added as Additional Insured	
Armored Truck Services	Workers' Compensation with Employers' Liability	Statutory Limits & EL \$1,000,000
	Commercial General Liability	\$1,000,000 per occurrence & \$2,000,000 aggregate
	Professional Liability	\$2,000,000 per occurrence & \$2,000,000 aggregate
	Auto Liability	\$1,000,000
	Excess Liability (umbrella)	\$1,000,000 per occurrence
	University Added as Additional Insured	

- Dynamic list
- Questions? Call Purchasing

Short Form Service Provider Agreement

- May be used for Independent Contractors
- May NOT be used if the vendor has employees
- Does NOT require vendor to provide evidence of insurance
- May be used for speakers, interpreters, models, entertainment contracts less than \$5,000, game officials, etc.
- May be used to pay honorariums (as long as vendor is an individual)

Guests with Travel Expenses Only

- Speakers, interviewees, etc. who are NOT being paid for services AND
- Are being reimbursed for travel expenses ONLY
- May use University Travel Voucher to process payment
- No other contract or paperwork is required

Standard Service Provider Agreement

- Must be used if vendor has employees
- May be used for most other service agreements
 - Waste pick-up
 - Photographic services
 - Security services
 - Maintenance/service agreements
 - Professional service agreements
 - Small contractor jobs
- Requires vendor to provide evidence of insurance, but also offers some flexibility



Workers' Comp Requirements

- Some contractors don't want to provide workers' comp coverage
 - Not required by law for sole proprietors
 - Trying other ways to avoid covering their workers
- BUT the University can be held responsible if there's a claim in the State of Michigan
- Purchasing has sources for obtaining WC coverage
- Workers' Comp Info: <http://www.michigan.gov/wca>

Campus Contracts

- Contract pre-negotiated by Purchasing
 - Copier/printer/typewriter repair
 - Document shredding
 - Beverages
 - Car rentals, etc.
- Individual department contract with vendor NOT required
- List of Contracted Vendors:
<http://www.ferris.edu/fsuintranet/purchase/intranet/>
- Vendor insurance requirements handled by Purchasing



Vendor-produced Contracts

- In some cases, the vendor will not agree to use the University's contract
- All vendor-produced contracts must be reviewed **IN ADVANCE** by:
 - General Counsel's Office
 - Risk Management & Insurance
 - Purchasing
- Requires vendor to provide evidence of insurance

General Counsel Custom Contracts

- In some cases, the University's Standard Service Provider Agreement may not be sufficient
 - Special risk-associated circumstances
 - Complexity of the components
- General Counsel's Office will develop a custom contract
- Requires vendor to provide evidence of insurance

Step 9: Authorization & Completion

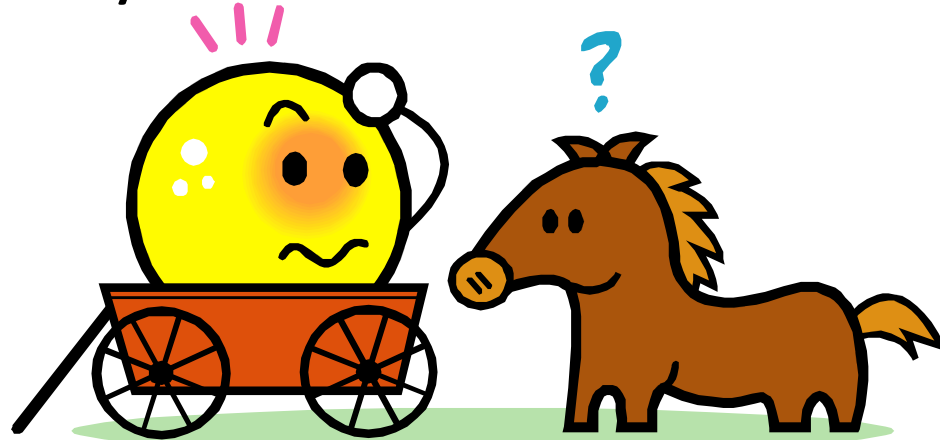
- Not everyone is authorized to sign contracts!
- Contracting Authority Signature Delegation List:
<http://www.ferris.edu/fsuintranet/purchase/intranet/documents/signaturedelegation.pdf>
- Send a copy of the signed contract to Purchasing, referencing the Requisition # (or other payment method)

Step 10: Processing the Payment

Determine the correct method of payment

- Purchasing Card (P-Card)
 - For purchase of products totaling < \$2,000
 - For purchase of services totaling < \$2,000 with Purchasing approval IN ADVANCE
- Direct Pay
 - For purchases of products <\$400
 - For services <\$400 obtained via Short Form Service Provider Agreement
- Requisition/Purchase Order
 - For all purchases \geq or = \$2,000
 - Purchases where P-Card is not accepted

Snag #1: Payments “After the Fact”



- Purchasing Procedures should always be followed!
- Process the paperwork BEFORE you buy!
- Purchasing Policy allows for exceptions, but these should not be the rule!

Snag #2: Insurance Requirements

- Standard Service Provider Agreement allows for flexibility

- Workers’ compensation insurance with statutory limits.
- Commercial general liability insurance with limits not less than Choose Limits. Such general liability coverage shall include Bodily Injury Liability, Broad Form Property Damage Liability, Contractual Liability, and Products and Completed Operations coverage. Ferris State University shall be included as an Additional Insured on certificate of insurance.
- Professional liability insurance with limits not less than Choose Limits.
- Excess or umbrella insurance with limits not less than \$1,000,000.
- All Risk Property insurance providing replacement cost coverage for any property damage to Contractor’s property, which is caused by a loss of any kind and description to any property brought onto University’s premises. Contractor agrees to waive on behalf of itself and its insurance company subrogation against University for any loss or damage which is covered or should be covered by this insurance.
- Automobile Liability Insurance with combined single limits not less than \$1,000,000 for all of Contractor’s owned, non-owned, and hired automobiles.
- Additional Insurance Requirements per Manager of Risk Management & Insurance: _____
- _____
- **Amendment/**
- **Waiver of Insurance Requirements Signature:** _____ **Date:** _____
- Christina Weber, Manager of Risk Management & Insurance

Snag #2: Insurance Requirements, cont.

- Always try to get the Vendor to comply with requirements FIRST
- Requirements can be amended or waived – Call Purchasing for assistance
- Must be done BEFORE the Agreement is signed

Snag #3: Bids & Quotes

- All purchases \$10,000 - \$150,000 require, at the least, 3 ADVANCE quotes (some may also require a formal bid)
- Purchasing will accept the following for quotes:
 - Print-out from vendor Web site
 - Any written quote from vendor
 - An invoice is NOT a quote
- Purchases \geq \$150,000 (\geq \$250,000 for construction) require a formal bid AND approval by the President
- Board of Trustees must approve:
 - All purchases of services \geq \$25,000
 - All other purchases \geq \$250,000



In Closing....

- Plan ahead!!!
- Try to use existing agreements!
- Involve Purchasing, Risk Management, Accounts Payable, & General Counsel's Office early in the process!
- When in doubt, call Purchasing!

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