

Procurement Policy



MERCY HANDS FOR HUMANITARIAN AID



BAGHDAD, IRAQ
2020

Mercy Hands for Humanitarian Aid

Procurement Policy

1. Purpose

The purpose of this policy is to ensure that goods and services purchased for Mercy Hands projects and activities are done so in a cost-effective, transparent manner, in compliance with Iraqi laws and donors' regulations.

2. Definition of Expressions

Advance Payment: Payment made before goods/services are delivered. Advance payments may only be made in exceptional circumstances.

Competitive Bidding: Process of bidding for all goods and services whose value is equal to or above \$US5,000.

Under a competitive bidding process, contracts are awarded only after the invitation for, and the assessment of, at least three quotations or bids. Any exceptions from competitive bidding procedures, such as sourcing from a sole supplier, must be justified in writing and authorized by the Executive Director.

Emergency: Unexpected situation that is so compelling that, if not addressed immediately, it would endanger life, damage property, and/or adversely affect essential operations. The emergency situation is such that it precludes requisitioning through normal supply channels, use of normal contracting methods and obtaining advanced approvals normally required to respond to the situation. Examples include a sudden influx of refugees, or a fire or flood in a refugee camp. However, an urgent need arising due to delay by those responsible or failure to plan adequately does **not** qualify as an emergency.

Formal bidding process: The Invitation to Bid (ITB) and Request for Proposal (RFP) are formal bidding processes with defined requirements and clear parameters for contract award. They must be used for tenders of \$US5,000 or more.

Framework Agreement: Agreement between Mercy Hands and a supplier which sets out the terms and conditions under which specific purchases (or 'call-offs') can be made throughout the term of the agreement. Under this type of agreement, the Supplier is obliged to provide goods/services whenever requested but the Requestor is not obliged to request.

Goods/Services Contract: Legally binding agreement between two or more competent persons/parties to perform or not to perform a specific act(s). It generally takes the form of a written agreement made up of an offer by one party and the acceptance of the offer by the other party. A procurement contract is legally binding for each party and includes the terms and conditions of the agreement between buyer and seller, serving as proof of their obligations.

Incoterms: International Commercial Terms – standard trade terms defined by the International Chamber of Commerce, used internationally to specify the obligations for delivering goods in international contracts.

International Procurement: Procurement of goods or services from outside the country of operation where the supply requirement is located.

Invitation to Bid (ITB): Solicitation document for procurement of goods or services with standard and firm specifications, in which the requirements for formal competitive bidding are specified.

Local procurement: Procurement of goods or services from within the country of operation where the supply requirement is located.

Bid Analysis Committee (BAC): Organizational body within Mercy Hands for the approval of contracts for goods and services. BAC is made of three senior staff members and ensures that the acquisition process followed by the Requester and the Logistics Department has been in compliance with policy and procedures.

Procurement Unit: The logisticians at the Logistics Department who are assigned responsibility for procurement.

Procurement File: A typical “stand-alone” file that contains all relevant documents for each procurement.

Procurement process: Process which includes specification of requirements, sourcing, evaluation of offers/proposals, contract award, inspection, delivery, installation and commissioning, resulting with the provision of goods and/or services.

Purchase Order: Legally binding document that serves as an agreement for the procurement of goods or services.

Request for Proposal (RFP): Solicitation document designed to obtain proposals for goods and services to satisfy a requirement that cannot be described in a quantitative or qualitative manner. An RFP leads to the selection of the proposal that offers the best value in accordance with the pre-defined evaluation criteria. Where appropriate, the RFP will indicate that negotiation may be undertaken in respect of the preferred proposal.

Request for Quotation (RFQ): Solicitation document designed to obtain proposals for goods and services that describes the requirements both quantitatively and qualitatively. An RFQ requests prices and commercial terms from vendors for goods/services that meet neutral specifications and are usually readily available on the market.

Requestor: Person or unit within Mercy Hands submitting a request for the procurement of goods or services.

Purchase Requisition Form (PRF): Standardized form containing detailed specifications of the required goods, which is completed by the Requestor and duly authorized, in order to initiate the procurement process by the Logistics Department.

Vendor (or Supplier): Provider of goods or services.

3. Scope

This policy applies to all programs, projects and activities implemented by Mercy Hands, whether funded by organizations or private donations, or through official agreements. For programs, projects, and activities funded by private donations, the rules of procurement are less strict and decided by the Board of Directors.

4. Responsibility

All staff involved in procurement must know the details of this document. Failure to comply with the procurement policy will result in disciplinary actions. Employees who fail to comply with the procurement policy will be held responsible for the financial losses that may result from incompliance. The Board of Directors and the Executive Administration write and review the Procurement Policy.

5. Code of Conduct

As representatives of Mercy Hands, all employees are expected to conduct themselves in a professional and ethical manner, upholding a high standard of integrity and the use of good judgment. Employees are expected to be honest and decent in their business interactions and general behavior both inside and outside of Mercy Hands.

The Code of Conduct shall govern the performance, behavior and actions of the Mercy Hands team, including Board members, employees, directors, volunteers, and agents engaged in any aspect of procurement, including – but not limited to – purchasing goods and services, awarding contracts and grants, or the administration and supervision of contracts.

- 5.1. No employee, volunteer or agent of Mercy Hands shall participate in the selection, award or administration of a bid or contract where there may be a conflict of interest. Conflicts of interest may arise when an agent of Mercy Hands stands to benefit financially or personally if a particular supplier is selected for an award.
- 5.2. No employee, volunteer or agent of Mercy Hands shall do business with, award contracts to, or show favoritism towards a member of his/her immediate family, spouse's family or to any company, vendor or concern who either employs or has any relationship to a family member, nor award a contract or bid which violates the spirit or intent of this procurement policy established to maximize free and open competition among qualified vendors.
- 5.3. Mercy Hands employees, volunteers or agents shall neither solicit nor accept gratuities, gifts, consulting fees, trips, favors or anything having a monetary value from a vendor, potential vendor, nor the family or employees of a vendor, potential vendor or bidder, nor from any party to a sub-agreement or ancillary contract.
- 5.4. Mercy Hands employees, officers, directors, volunteers or agents shall not take goods or items distributed to beneficiaries in any arrangements (purchase, gift, etc.).

6. Basic Procurement Principles

- 61 Mercy Hands will purchase all goods and services on the best terms consistent with the required quality and delivery time, and optimum value for money. Delivery time often becomes the critical factor in emergency situations, especially during “rapid onset” or acute emergencies. Should a particular situation dictate a rapid response, the situation should be documented— as with any purchase— noting the reasons why standard operating procedures were not followed.
- 62 We will always strive to maximize the value of each dollar we spend.
- 63 Preference is given to procurement of goods or services manufactured in the area of operation or readily available locally in the quality required at competitive prices, to support the local economies of areas hosting refugees or other persons of concern.
- 64 All interested suppliers shall receive fair and impartial consideration.
- 65 All transactions will be undertaken only for the benefit of the Mercy Hands' mission, and never for the personal benefit of employees or partners.

- 66 Employees, officers, directors, and others associated with Mercy Hands may not obtain any personal or financial benefit for themselves, relatives, associates or friends while purchasing any type of goods or services for Mercy Hands. Failure to comply will lead to disciplinary action and possibly termination.

Adhering to our procurement policy is the best way we have found to honor these principles.

7. Organizational Structure and Duties

- 7.1 The Executive Director assigns the Bid Analysis Committee (BAC). The Logistics Department starts the bidding process, invites suppliers, receives offers and passes them to the BAC. BAC analyses the offers and selects the most suitable supplier. BAC members should be replaced every six months.
- 7.2 The Director of the Logistics Department is responsible for ensuring that all staff involved in the procurement process are in compliance with the applicable policy and procedures for procurement of goods and services.
- 7.3 The Director of the Logistics Department trains and supervises all procurement and logistics staff in Mercy Hands.

8. Procurement Standard Operating Procedure (SOP) - Outline

The following purchasing procedures apply to any procurement, be it fixed assets, equipment, advertising materials, maintenance/repairs, property (including rent) and/or other services.

Process Philosophy – The greater the cost of the procured goods, the greater the number of steps and people involved in the process. This will make it more difficult for any one person to bend the process to his/her personal advantage.

Note: the donor may at times establish processes that are different from MH SOP.

Purchase of Goods & Services < \$50

1. Requester (can be anyone) completes and signs first part of the Procurement Request Form (PRF) and submits it to the Logistics Department. The budget holder (normally Program Manager), Regional Coordinator or Executive Director approves the request. The Director of Logistics completes and signs the second part of the PRF and endorses the procurement process (third signature on the PRF).
2. Procurement staff member buys item(s) and submits receipt to the Finance Department for reimbursement.
OR staff member receives a payment advance, buys item(s) and uses receipt to clear advance.
3. **Proof of payment form, signed by both Purchaser and Supplier.**

Forms

1. Procurement Request Form
2. Purchase Receipt (signed and stamped by Supplier)
3. Proof of Payment Form

Purchase of Goods & Services between \$50 – \$499

1. Requester (can be anyone) completes and signs first part of the Procurement Request Form (PRF) and submits it to the Logistics Department. The budget holder (normally Program Manager), Regional Coordinator or Executive Director approves the request. The Director of Logistics completes and signs the second part of the PRF and endorses the procurement process (third signature on the PRF).
2. Logistics Department researches the market for required products/services and discusses the options with the Requestor, to decide together on the best purchase option.

3. The purchase is made by one of two methods:
 - a) Procurement staff member brings payment to the vendor and collects the item.
 - b) Logistics Department fills out a Purchase Order, the Program Manager or Executive Administration approves it, then the Supplier completes their section (this step is to be done for ALL assets – eg. phones, laptops, furniture) and also requires a Goods Received Note (completed and signed by the Requestor).
4. Proof of payment form, signed by both Purchaser and Supplier.

Forms

1. Procurement Request Form
2. Purchase Order (optional)
3. Goods Received Note (optional)
4. Purchase Receipt (signed and stamped by Supplier)
5. Proof of Payment Form

Purchase of Goods & Services between \$500 – \$4,999

1. Requester (can be anyone) completes and signs first part of the Procurement Request Form (PRF) and submits it to the Logistics Department. The budget holder (normally Program Manager), Regional Coordinator or Executive Director approves the request. The Director of Logistics completes and signs the second part of the PRF and endorses the procurement process (third signature on the PRF).
2. Logistics obtains at least 3 written bids for the required goods (RFQ). These bids do not have to be sealed and can be emailed.
3. Logistics Department gives these bids to the Bid Comparison Committee (BCC), who completes the Bid Comparison Form. The Program Manager or Executive Administration approves this form (as long as they are NOT part of the BCC!) and selects the successful supplier.
4. Logistics Department or Program Manager completes the Purchase Order, the Program Manager or Executive Administration approves it, then the Supplier completes their section.
5. The Requestor completes and signs the Goods Received Note. If the item is satisfactory, the process ends here. If not, the item is returned and, if needed, the second successful supplier is used.
6. Proof of payment form, signed by both Purchaser and Supplier.

Forms

1. Purchase Requisition Form (PRF)
2. Written Bids (RFQ)
3. Bid Comparison Form
4. Purchase Order
5. Goods Received Note
6. Purchase Receipt (signed and stamped by Supplier)
7. Proof of Payment Form

Purchase of Goods & Services - \$5,000 and above

1. Requester (can be anyone) completes and signs first part of the Procurement Request Form (PRF) and submits it to the Logistics Department. The budget holder (normally Program Manager), Regional Coordinator or Executive Director approves the request. The Director of Logistics completes and signs the second part of the PRF and endorses the procurement process (third signature on the PRF).
2. The Logistics Department specifies the product requirements and begins the Tender Process. This is done by advertising for tender bids in a national newspaper, online and/or on social media (PR department's responsibility). At least three written, sealed and stamped bids must be received, with a deadline for receiving them. If less than 3 bids are received, a new advertisement must be created.

3. After the deadline, a Bid Analysis Committee reviews the bids and documents the information on the Bid Comparison Form, assessing the bidder's Administrative, Technical and Financial Components. The bidder with the highest score is then selected. The unsuccessful bidders are notified via email once the successful bidder has signed the contract.
4. Once the Head of Finance approves the funds, the Logistics Department writes up a Purchase Order/Contract (depending on the type of procurement). This must be approved by the Regional Coordinator or the Executive Director. It is then issued to the Supplier to also sign (one original copy for each party).
5. Requestor completes and signs the Goods Received Note, once all is satisfactory according to the conditions of the PO/Contract.
6. The supplier issues an invoice, given to the Finance Department to arrange payment.
7. Proof of payment form, signed by both Purchaser and Supplier.

Forms

1. Procurement Request Form
2. Tenders
3. Bid Comparison Form
4. Purchase Order/Contract
5. Goods Received Note
6. Invoice from Supplier
7. Proof of Payment Form

Note To File

If at any time, such as in the case of an emergency, we cannot follow the steps outlined in this SOP, we must write a **Note to File**, clearly explaining why we diverged from the policy (who was involved, who made the decision, the circumstances, who authorized/approved this). This Note to File must then be signed by its author, MH Executive Director and the Donor. It is then filed with the documents related to the procurement.

9. Procurement Standard Operating Procedure (SOP) - Details

9.1 Procurement Requisition

- 9.1.1 A formal written Request must be made by the Requestor to the Logistics Department in order to initiate the procurement process. A completed Procurement Request Form (PRF) is required for all procurement of goods and/or services. Requisitions must be submitted such as to provide sufficient time to meet delivery and distribution schedules.
- 9.1.2 Before proceeding with any procurement, the Logistics Department must review the PRF and make certain that proper approval has been obtained. It is important to note that the Logistics Department is not authorized to alter specifications, quantity or other details on a PRF, unless such changes have been discussed and approved with the Requester.
- 9.1.3 The completed PRF, along with the subsequent offers from vendors and evaluation done by the Logistics Department, serves to support the creation of a Purchase Order or Contract and eventual payment to a vendor. No procurement activity will be undertaken without a fully completed and authorized Requisition.

9.2 Creating Bidders List

- 9.2.1 Potential vendors that have not yet been registered must be requested to complete a vendor registration form. Following an evaluation by the Logistics Department, the vendor may be added to Mercy Hands' active database of registered vendors. An updated vendor database must be maintained and should contain for each pre-qualified vendor:

- a) Full name and address;
- b) Product information and data sheets;
- c) Supply information (quality, delivery times, payment terms and warranties);
- d) Post purchase services;
- e) Packing and shipping facilities;
- f) Management data and historical data;
- g) References;
- h) Verification that the vendor is not listed on the United Nations list of suspended and removed vendors;
- i) Results of previous bidding and comments on past performance; and
- j) Audited financial statements for the last three years.

922 From this database of registered vendors, the Logistics Department will identify and select eligible vendors for a particular procurement process, focusing on:

- a) Vendors who delivered on the last contract;
- b) The best three vendors from the last solicitation;
- c) Newly identified vendors;
- d) Other relevant vendors.

923 Vendors who are not able to supply the required goods or services, or who are not eligible or suitable to bid, may not be added to a bidding list simply to make up the numbers.

9.3 Solicitation Documents

931 There are three types of solicitation documents: Request for Quotation (RFQ), Invitation to Bid (ITB), and Request for Proposal (RFP).

932 Solicitation documents must indicate all information necessary for a bidder to prepare an offer and explain the main criteria for their evaluation. The rights of the bidder regarding the acceptance or rejection of offers must also be stated.

933 A formal tender process is required for procurement with a value of \$US5,000 or greater. In such cases, either an Invitation to Bid (ITB) or a Request for Proposal (RFP) must be used for procurement. In case of formal tendering, Mercy Hands will advertise the tender opportunities publically, in a widespread newspaper publication and online, eg. NCCI website, social medial. For procurement with a value below \$US5,000, formal bidding is not required and a Request for Quotation (RFQ) may be used for tendering.

934 The Invitation to Bid (ITB) is a formal method of tendering. It is used for the procurement of goods and services with standard and firm specifications that can be expressed qualitatively and quantitatively. Bids may be submitted in either one sealed envelope or two sealed envelopes (where technical and commercial information are submitted separately).

9.4 General Elements of a Formal Solicitation Document

941 Form of submission: The ITB and the RFP are formal solicitation documents. Their content is crucial to a good procurement process, since they define the procurement requirements and the basis on which the submission is to be made. ITB or RFP tender documents must be sent simultaneously to all potential bidders to ensure equal treatment.

942 The tender document must always stipulate that offers or proposals, including pricing, must be submitted in a sealed envelope identifying its nature. In the case of RFPs and for complex or specialized contracts, bidders will

be asked to submit the technical and commercial proposals in two separate sealed envelopes.

- 943 The ITB or RFP must specify the main criteria for the evaluation of proposals.
- 944 The selection will be made based on the principle of best value for money. Bids must be scored when evaluated, with price and technical evaluation scores indicated in percentages. For example, an RFP evaluation for goods could be evaluated by weighing the technical evaluation at 60% and the price at 40%; for consultancies, the price and technical evaluation could be weighed at 50% / 50%.
- 945 Closing date/time: The response time allowed for offers or proposals is based on the complexity of the required goods or services. Vendors are generally given ten days to two weeks to respond to an ITB or RFP. In cases of emergency, vendors may be required to respond as quickly as within 24 hours. For complex or specialized goods or services, it is usually appropriate to allow more than two weeks, even a month or more.
- 946 Validity of offers/proposals: They must allow enough time for Mercy Hands to complete the comparison and evaluation of offers/proposals, to evaluate samples (if required), to clarify particular aspects of the proposed contract, to obtain all necessary approvals, to award the contract and to receive the signed contract from the vendor;
- 947 Any specific conditions must be shown under a separate heading, such as the currency in which offers are to be made, if samples are to be provided or if laboratory test certificates are required.
- 948 Conditions for purchase orders for goods or services - It is important to ensure that the vendor accepts Mercy Hands' general terms and conditions, either during vendor registration process or when submitting an offer.
- 949 The required number of copies of the offer/proposal must be noted in the tender document.
- 94.10 Performance security: A performance bond must be considered for high-value contracts, construction contracts and critical projects, to be provided by the vendor on or before the effective date of contract.
- 94.11 Any potential bidder under an ITB or RFP process requiring additional information must submit a written request, either by letter or e-mail. The response and a copy of the question must be sent simultaneously, in writing, to all potential bidders, whilst maintaining confidentiality about who is bidding.
- 94.12 It may be necessary to organize a meeting with potential bidders under an ITB or RFP process to provide additional information which cannot easily be dealt with in writing (e.g. when bidders have complex queries concerning product specifications). Such a meeting, for which all potential bidders must be invited to attend, would need to take place prior to the bid closing date. A record of the meeting will be provided without delay and simultaneously to the attending and other potential bidders. Prompt action must be taken in order not to compromise the bid closing date.
- 94.13 An extension of the closing date/time may be granted if justified by exceptional circumstances (e.g. when many vendors cannot comply with the closing deadline) or if requested in writing by more than one bidder. When an extension is granted, all bidders must be informed immediately and simultaneously. A bid opening may only take place after the new deadline for the submission of bids.

9.5 Specific Elements to be included in an ITB or RFP for Goods

- 95.1 It is recommended that the ITB or RFP document includes a template offer form, which the suppliers will use, facilitating the evaluation of bids. The form must include fields for the supplier to record the necessary offer elements, e.g. currency of offer, unit price, quantity discounts and applicable taxes.
- 95.2 The vendor is required to include a warranty for items which by their nature and price are normally guaranteed against deficiencies.
- 95.3 For the purpose of evaluation and comparison of offers, bidders must be requested to quote on the basis of identical trade terms. Bidders are required to state the following:
- a) EXW unit prices (Ex Works);
 - b) EXW total price, including cost for packing and loading;
 - c) Price increment for delivery, as applicable, according to Incoterms, e.g.:
 - FCA to named place of departure (Free Carrier);

- CIP to named place of port of entry (Carriage and Insurance Paid to);
- DAP to named place of destination (Delivered at Place).

954 If required, the ITB or RFP must request the cost of the following services, to be quoted separately from the cost of the goods:

- a) Freight and other expenditures related to inland transportation and delivery by the vendor in the country of destination;
- b) Installation and commissioning;
- c) Training;
- d) Maintenance and repair; and
- e) Detailed operations and maintenance manuals.

9.6 Specific Elements to be included in an ITB or RFP for Services

96.1 The following elements must be included specifically in an ITB or RFP for services:

- a) A warranty from the vendor;
- b) A detailed description of the services to be provided, including an implementation schedule;
- c) The payment schedule;
- d) A request for customer references; and
- e) A request for staff references, as applicable.

9.7 Receiving Formal Offers or Proposals under the ITB or RFP Process.

97.1 Sealed envelopes received under the ITB or RFP process must be marked “*not to be opened before (closing date/time)*” and must bear the references requested by Mercy Hands on the outside envelope for identification purposes.

97.2 Upon receipt, the unopened offers or proposals must be immediately safeguarded in a locked bid box and not opened until the bid opening deadline.

97.3 Offers or proposals received after the closing date will not be considered. All late offers or proposals will be returned to the respective bidders. Offers or proposals which are not submitted in sealed envelopes will also not be considered.

97.4 Bidders are not permitted to alter the offer or proposal after the closing date. Any bidder may, however, be requested to clarify an aspect of an offer or proposal in writing, but a change in the substance or price of the offer or proposal may not be sought, offered or permitted.

97.5 No information may be revealed concerning offers or proposals (relative standing, names of bidders, etc.) prior to the award of Contract. After the award of contract, the decision will be announced to all bidders. Explanation may be provided upon request. Under no circumstances, however, will any bidder’s confidential information be disclosed to another vendor or to officials not directly concerned with the evaluation process.

9.8 Review and Evaluation of Offers or Proposals and Award

98.1 The Bid Analysis Committee (BAC) will conduct the bid opening (NOTE: all members of the BAC **must** be present when opening the bids). Under no circumstances will an offer or proposal be opened, altered, reviewed or examined, nor will it be marked or defaced in any way, prior to the official bid opening. Only authorized staff are allowed to participate in the bid opening for ITB or RFP tender documents.

98.2 The BAC must verify whether the submitted offers meet the general requirements for valid receipt specified in the solicitation documents, and whether they have been properly signed.

- 983 The BAC will prepare the Bid Comparison Form. Minutes of the deliberations and decisions reached must be retained on file. Committee members must ensure that they have no conflict of interest in reaching their decisions, and to this end are **not** allowed to work as part of the Logistics Department.
- 984 The purpose of evaluation is to determine which vendor has the lowest price for the acceptable specifications (principle of “best value for money”). In determining whether an offer or proposal is acceptable, non-price factors are first taken into account. If all other technical elements are equal, the lowest price acceptable offer or proposal must be selected. The basis for award must be duly documented and justified and must be based on the established evaluation criteria in the tendering document.
- 985 The Procurement Unit will thoroughly review each bidder’s offer/proposal in order to detect any problem. In the event of a calculation error in an offer or proposal, the unit price will prevail. If it is clearly beyond doubt that a fundamental mistake has been made, the Procurement Unit may permit the bidder to withdraw, but not alter, the offer or proposal.
- 986 The factors that will be considered in an evaluation, in addition to price, for the purpose of determining the best acceptable offer or proposal will be specified in the RFQ, ITB or RFP, and will include where applicable:
- a) Compliance with legal requirements, technical specifications, relevant international standards and technical norms;
 - b) Compatibility with existing equipment and standardization plans;
 - c) Compliance with required time schedules;
 - d) Delivery times;
 - e) Payment terms;
 - f) Guarantees, availability of spare parts, after-sales services and training;
 - g) Life-cycle aspects covering maintenance and operating costs;
 - h) Capability, capacity, financial standing, past experience and performance of the vendor and its local representative;
 - i) If delivery time is a main factor for award, a liquidated damages clause will be made part of the contract;
 - j) If offers or proposals are in a currency other than the local currency, they will be converted at the prevailing rate of exchange for evaluation purposes.

9.9 Ordering and Inspection

- 991 A letter, with the following tendering documents, is submitted to the BAC as the basis for awarding the contract:
- a) Requisition;
 - b) RFQ or ITB or RFP;
 - c) Record of the opening of the offers/proposals;
 - d) Technical evaluation report (if relevant);
 - e) Tabulation of offers; and
 - f) Offers or proposals received (all in original). Purchase Orders or Contracts will be utilized to establish contractual obligations. They are issued according to a numerical sequence of reference numbers.
- 992 The required basic data in a Purchase Order or Contract are:
- a) Contract number and date;
 - b) Page number and total number of pages (e.g. 1/3, 2/3, 3/3);
 - c) Vendor’s address, contact person and phone number;
 - d) Vendor reference number;
 - e) Consignee and, if different, delivery address;
 - f) Trade terms (Incoterms);
 - g) Mode of shipment and trans-shipment point (via);

- h) Delivery date (note: never “ASAP”);
- i) Terms and conditions;
- j) Timeframe of the contract;
- k) Liquidated damages or compensation for non-compliance with terms and conditions;
- l) Cash terms (prompt payment discounts);
- m) Item number(s);
- n) Complete description of goods or services;
- o) Quantity, unit of measure, unit price and total for each item;
- p) Total order value;
- q) Requisition reference;
- r) Authorized signature.

993 If a progress payment is requested by the vendor and has been negotiated, this will be specified in the contract.

994 Change (including cancellation) of an outstanding order or contract must be made in writing to the Logistics Department, who will consult with the Requestor and the vendor. Under no circumstances will the Requestor contact the vendor directly to modify an order or contract. If change is approved, an amendment of the contract or the order must be issued with the words “Contract Amendment” or “Change Order” written on the top of the page. A description of the changes must be written into the body of the contract and approved by both the Requestor and the vendor.

9.10 Contracting for Goods and Services

9.10.1 Following the award of contract, contracting for goods and services requires a written contract with clear terms of reference and active oversight by the General Administrator, Director of Finance and Director of Logistics.

9.10.2 The Logistics Department prepares the contract, which succinctly and clearly states the nature, timeliness and measures of performance required of the contractor. The contract may include standards for completing the work.

9.10.3 The General Administration Department must maintain records of solicitation documents, all original proposals, selection documents, evaluation reports and the contract.

9.10.4 The Contract must be signed by Mercy Hands (Regional Coordinator or Executive Director) and the contractor. The contractor signs the Contract first. At least two (2) originals must be prepared, one for the contractor and one for Mercy Hands.

9.10.5 Modifications to Contracts may only arise when unexpected or emergency situations occur and must be reflected in an amendment of the Contract. Clauses for providing for amendments will be stipulated in the contract. Funds must be certified as being available prior to modifying a contract that increases its amount.

9.10.6 Active oversight or contract management ensures that contractor performance is monitored and that any shortcomings are promptly brought to the attention of the contractor for correction and adherence to the terms of reference as included in the Contract. Active oversight also ensures timely processing of contractor invoices.

9.10.7 Payment will be made upon satisfactory completion and acceptance of work. Upon submission of the invoice by the contractor, payment will be promptly made in accordance with the payment terms established in the Contract.

9.10.8 Advance payments are, in principle, not allowed. However, Mercy Hands may consider them for specific situations, in accordance with established criteria.

9.10.9 In case advance payments are necessary, they may not exceed 50% of the total vendor contract. Under no circumstances may advance payments exceed \$US10,000 without prior and written authorization by the Executive Director.

9.10.10 Progress payments may be appropriate for contracts lasting longer than two to three months and for services with discrete or regular progress intervals, such as annual maintenance or other service contracts - the payment schedule must be reflected in the contract; a study or report lasting several months to a year - payment can be based on steps accomplished to achieve the final report or study. Milestones must be realistic and reasonable.

9.10.11 Progress payments will not be applied for short-term contracts which involve the simple delivery of goods or services.

9.11 Payment

9.11.1 Payments are made in a timely manner, as stated in the contract.

9.11.2 Invoices from vendors will be examined, verified and certified independently by the Finance Department. Such examination will include supplementary documentation covering:

- a) Unit and total prices;
- b) Quantities specified in the contract;
- c) Previous payments;
- d) Deductions;
- e) Signed Receiving Report (for goods) or Handover Report (for services);
- f) Copies of payment vouchers and invoices reported and referenced to all assets acquired with the donors' funds;
- g) Other obligations specified in the contract (e.g. installation, training, etc.).

9.11.3 Examination and verification of invoices will be performed expeditiously in order to assure timely payment within the timeframe agreed. This verification will confirm that the goods or services invoiced have been authorized as actually received in conformity with the contract. Any deficiencies or discrepancies will be referred to the Logistics Department.

9.11.4 The Finance Department will certify the invoice for payment. Only the amount stated on this certified invoice will be paid. Cash discounts taken or lost must be reported accordingly. Lost discounts must be justified in writing and added to the Procurement File.

9.11.5 The payment conditions must be clearly detailed in the contract. The principal options are:

- a) Bank transfer directly from Mercy Hands' account. This is the preferable option.
- b) Check drawn from the Mercy Hands' account and handed over directly to the vendor.
- c) Letter of credit. This is the least preferable option since it is costly and time-consuming.

9.11.6 A Proof of Payment Form must be completed for any procurement activity, and must be signed by both Purchaser and Supplier at the receipt of payment.

9.12 Documentation of Procurement

9.12.1 Complete and adequate documentation is necessary for accountability of the supplier and will be required if any disputes arise or if any claims are made. All supporting documents must be kept for a period of six years for audit purposes. Documents must be filed by contract number and tender document number.

9.12.2 Procurement File: The Procurement Unit must maintain a file for each procurement. A typical "stand-alone" Procurement File would contain the following, in this order, separated by dividers for easy reference:

- a) Requisition;
- b) Company names and contact persons for vendors solicited;
- c) Copy of the request for written offer (RFQ, ITB or RFP);
- d) Original offers or proposals from responsive vendors, including all related correspondence;
- e) Evaluation of offers or proposals or approved waiver giving justification for vendor selection and award price,

- f) Tabulation of offers;
- g) Justification for lack of competition, in case less than the specified number of bids were received;
- h) Mercy Hands' Contracts Committee minutes and decision, if appropriate (depending on value of contract);
- i) Copy of the Purchase Order or service contract including orders for inspection and insurance, if applicable;
- j) Expedition documents;
- k) Customs clearance documents (in case of international procurement);
- l) Copy of the Receiving Report (for goods) or Handover Report (for services);
- m) Copy of the vendor invoice;
- n) Payment vouchers/receipts;
- o) Other documents and correspondence related to the Contract;

9.123 The Procurement Unit must document any anomalies or deviations from policy or procedures in a purchase with a signed explanatory "note to the file". Full supporting documentation must be maintained to respond to future queries from reviewers or auditors.

9.13 Authorization Schedule

9.13.1 General guidelines:

- a) All expenditures must be in accordance with the approved budget, unless approved otherwise by the Board of Directors. (Note: The budget is a guideline and not an authorization to spend.)
- b) Expenditure authorization is to be obtained before an expense is incurred. An exception is made for regular monthly expenditures (e.g. utility bills).
- c) A voucher is required to be completed before cash disbursement.
- d) All expenditures are to be supported by a receipt or appropriate documentation. The voucher should be signed and dated when submitting for payment approval. The expense description should be clear enough for a third party to understand (e.g. an auditor).
- e) The appropriate authority is to approve the expenditure by signing and dating the voucher.
- f) Persons are not to approve payments of more than \$50 to themselves. Vouchers above this amount must be submitted to an authorized person.

9.13.2 Authorization:

- a) The Board of Directors decides on the authorization schedule of monetary limits of the authorization levels given to individual employees, while the Executive Director ensures the implementation of the set authorization schedule. The authorization schedule may not be circumvented in any way. A copy must be kept for audit purposes, and the dates of any changes must be documented to maintain a complete audit trail.
- b) The authorization schedule must clearly distinguish two functions pertinent to procurement:
 - i. To make purchase commitments for the purpose of procuring goods and services;
 - ii. To make or approve cash or bank disbursements.
- c) In order to segregate duties and establish appropriate internal controls, a Mercy Hands' employee will only be authorized in one of the two functions, i.e. either commitment or disbursement, or one monetary limit. Purchases or payments may not be divided or delayed in order to avoid obtaining the correct level of approval.
- d) The Executive Director will inform the Board of Directors of any change in the position of the authorized employees and in turn the Board will review and update the Authorization Schedule in a timely manner.

9.14 Receiving Goods or Services

9.141 As soon as goods or services are received, they must be promptly and carefully examined or assessed to verify that they conform fully to the Contract.

9.142 For each Purchase Order, a Goods Received Note (GRN) must be completed. The Requester signs and dates the form, certifying whether the goods or services have been received in full and in good order or otherwise.

9.143 The GRN is the basic document to initiate payment to local vendors. International vendors usually have to be paid upon delivery to the forwarder in the exporting country. A copy of the GRN is required for the Procurement File, for follow-up action and closure.

9.144 In case of any problem detected upon delivery (such as loss, damage, wrong quality or quantity), the basic policy is not to accept any non-conforming goods or services and to immediately inform the vendor. However, it is important to know the legal status of the goods or services in order to take the appropriate following action, depending on whether the ownership is already with Mercy Hands as the consignee or still with the vendor.

9.145 The following actions have to be taken for all non-conforming deliveries having taken place, irrespective of the ownership:

a) Note reason for objection:

For goods: on the transport document, i.e. the waybill as well as on the GRN;

For services: on the Handover Report.

b) Inform the vendor immediately.

9.146 For contracts where the vendor has full responsibility until delivery is accepted by the consignee:

a) Reject the delivery or part of it;

b) Request replacement, re-performance or repair free of charge;

c) Only after approval, contract again with the second-in-line vendor/the second best bidder of the bidding process and collect excess costs from the defaulting vendor;

d) Terminate the contract.

9.15 Vendor Management

9.151 The Executive Director is responsible for establishing, reviewing, and updating policies and procedures for proper evaluation of Mercy Hands' vendors (including a feedback system, pre-qualification and registration, and effective management of vendors.

9.152 Pre-award surveys conducted as part of the technical review of offers are recommended prior to the first award to a new vendor for a contract of high value, high priority or complex goods or services. Such surveys must include the vendor's credit rating – if available, affiliations, familiarity with the technical requirements, facilities, experience, references, capacity, production equipment, type of personnel, etc. A firm specialized in pre-award surveys may be engaged to obtain this information.

9.153 Vendors will not participate in developing or drafting specifications for goods or services for which they subsequently submit an offer/proposal.

9.154 All Mercy Hands' tenderers and suppliers must observe and uphold ethical standards in the procurement and execution of contracts. Suppliers will provide their affirmation by signing the MH Code of Conduct and General Terms and Conditions before signing the contract.

9.16 Use and authorization of waiver of competitive bidding

9.161 In case of an exceptional operational situation, Mercy Hands' Executive Director or his/her delegate may request an exception (waiver) to the requirement of formal competitive bidding. Such request for a waiver, in writing,

must provide valid justification and be approved by the appropriate Committee or Donor prior to contracting.

9.162 Exceptions to the requirement to conduct a formal competitive bidding process, which must be kept to an absolute minimum, are allowed only when:

- a) Prices or rates are fixed pursuant to national legislation or by regulatory bodies;
- b) The proposed contract relates to procurement from a sole supply source of goods or services (e.g. sole authorized vendor) or to procurement of a proprietary product or service;
- c) Offers for identical products or services have been obtained competitively within a reasonable prior period, and prices and conditions remain competitive;
- d) The formal solicitation (Invitation to Bid or Request for Proposals) will not give satisfactory results, or when a formal solicitation done within a reasonable prior period has not produced satisfactory results;
- e) The procurement contract relates to services that cannot be evaluated objectively;
- f) Exigencies of service do not permit any delay due to waiting for the result of a formal solicitation. This applies to circumstances where goods or services are required immediately to prevent harm to life, health or well-being of refugees and other persons of concern in situations of true emergency.

Annex 1: Procurement No-Nos

To detect errors and prevent fraud, we divide important processes amongst different people and departments. The greater the number of people involved, the harder it is for any one person to manipulate the process. This is called Segregation of Duties. As procurement staff are involved in gathering information about potential purchases, there are other tasks in the process that they **must not** perform.

Logistics staff are not allowed to carry out the tasks in the list below.

- 1 Request goods or services for other departments or projects
- 2 Approve Purchase Orders or Service Contracts
- 3 Acknowledge or approve receipt of services and prepare receiving documentation
- 4 Perform quality control tests or evaluate goods received
- 5 Prepare, record or distribute payments to vendors
- 6 Have custody over assets or goods purchased
- 7 Receive invoices from vendors
- 8 Have custody of blank cheques

Annex 2: FORMS

Purchase Requisition Form (PRF)

The Purchase Requisition Form (PRF) is used by staff to request any procurement of goods and/or services. The requester will fill out the form, get it approved, and bring it to the Purchasing Department. The PRF number will be used for all communication about the purchase. Use of this form is required for all purchases.

Purchase Order

The Purchase Order is a formal contract for procuring goods/services. When Mercy Hands and the vendor sign it, it becomes a legal obligation to purchase under the terms and conditions specified in the Order. Purchase Orders must be used for all procurement over \$500 and any procurement of assets above \$50.

These forms should be formally printed out by a commercial printer, pre-numbered, on carbon-copy paper, with an original and one copy. If we write a separate, special contract with a vendor, we attach that contract to the next Purchase Order form and use the Purchase Order number to refer to the purchase.

Bid Comparison Form

Purchasing Staff and Bid Committees use this form to record different vendors' bids next to each other for comparison. Purchasing staff should fill this out for any purchase for which they have more than one bid, whether the decision on where to purchase will be made by an individual or a committee. In Bid Committee Meetings the form should be filled out in the presence of the committee and signed by them before the meeting is over.

Goods Received Note

To be used for all purchases over \$500 and any purchase of assets above \$50. Requester completes and signs this form after ensuring that goods/services received comply with the specifications in the contract.

These forms should be formally printed out by a commercial printer, pre-numbered, on carbon-copy paper, with an original and one copy.

Proof of Payment Form

Must be completed for *any* procurement value, and signed and stamped by MH procurement officer and supplier.

Annex 3: Receiving Purchased Items

Overview

When we receive items, we take full responsibility for those items and their use. From that point on we must be able to account for:

- 1 Where they are
- 2 How we have used them
- 3 How we have disposed of them

If the items have been purchased from a vendor, we will pay for the items only after we have received them and verified that they meet specifications and are what we were billed for.

So, when items arrive at our office or warehouse:

- 1 We count them
- 2 We inspect them and make sure they are what we ordered
- 3 We document their quantity and quality in our records
- 4 We store them in their allocated location
- 5 We let the appropriate people know they have arrived.

This process applies to any and all items that arrive at the office or warehouse.



Khaldoon Al-Moosawi
Chairman Board of Directors