

SMVE HOA Purchasing and Contract Procedures

Introduction

The goal of the SMVE Board of Directors and all HOA volunteers is to ensure that expenditures of HOA funds are done in a manner such that the best available value is achieved to benefit the homeowners of the association. The guidance below is intended to delineate the powers of authority of committee chairs, officers and the board of directors and to provide guidance in making financial decisions as well as support the board's goal of financial transparency in communicating with the HOA owners.

No document can provide absolute direction for every circumstance. Important watchwords in overseeing expenditures of HOA funds are common sense and prudence. The guidance in this document is intended to provide an outline of required procedures and recommended decision factors. It is also recognized that circumstances may arise that require quick decision making. Nothing in this document is intended to prevent officers and board members from responding in a timely manner to unusual or emergency situations in order to serve the best interests of the HOA.

Expenditure Matrix

The following matrix is provided as a means of categorizing HOA expenditures and determining what processes should be followed and what approvals are needed to authorize an expenditure. If there is doubt about which category a proposed purchase falls into, the HOA President or Treasurer should be consulted:

Expense Type	Contract in Place	Within Expense Category Budget	Value	Bids Required	Expenditure Approver
Operating	No	Yes	<= \$5,000	No	Pertinent Committee or Director
Operating	No	Yes	>= \$5,000	Yes	Pertinent Committee or Director
Operating	No	No	Any	Yes	Board
Operating	Yes	No	<= \$5,000	No	Board
Operating	Yes	No	> \$5,000	Yes	Board
Operating	Yes	Yes	Any	No	Pertinent Committee or Director
Capital	Any	No	<= \$5,000	No	Board
Capital	Any	Yes	<= \$5,000	No	Pertinent Committee or Director
Capital	Any	Any	> \$5,000	Yes	Board

Notes:

1. Bids not required when only one vendor is available.
2. Any change of a utility vendor must be approved by the board (examples – telephone or Wi-Fi)
3. If an unbudgeted expenditure is considered as emergency in nature, the President, Treasurer, or any two board members may approve the expenditure if full board action is not possible due to personnel availability or timing. “Unbudgeted” , for this purpose, includes any expenditure that will take that account “over budget”.

For clarification, this matrix is to designate the process for approval of an expenditure, as opposed to the review of invoices for previously authorized expenditures. Invoice payment authorization is normally done by the appropriate committee chair or officer, with a secondary approval by the Treasurer or President.

Contract Authority

The matrix below shows who has authority to execute a contract.

Contract Authority

Type of Expense	Value	Contract Approver
Operating	</= \$5,000	Pertinent Committee or Director
Operating	> = \$5,000	Board
Capital	Any	Board

Vendor Selection Considerations

The process diligence and criteria for selecting any vendor varies greatly depending on the value of the expenditure. Common sense suggests that routine purchases of items generally available from a variety of sources does not require much consideration or effort. Conversely, higher value purchases and procurement of services and products where expertise and technical considerations are important require proportionally more diligence and effort. The following criteria should be considered:

- Proof of liability insurance (where applicable)
- Proof of appropriate license(s) (where applicable)
- Prior history with HOA
- Continuity of services
- References
- Conflict of interest
- Preference for local vendors

Bidding Procedures

When bidding is required, common sense dictates the level of care, detail and consideration that should be exerted in soliciting bids for products and services. The intent of this section is to provide general guidance to individuals or committees managing a bidding process. Those individuals, committees or the board approving transactions involving bids are charged with insuring the appropriate level of preparation, detail and due diligence have been met.

A. Requests for quotation (RFQ)

Preparation of an RFQ should provide the prospective vendors an appropriate level of information to bid accurately. Items to include:

1. Precise statement of work in the case of services.
2. Precise statement of product(s) in the case of property purchases. This should include item identification (part numbers or minimum performance standards for example)
3. Time frames (beginning and completion dates, schedules, milestones or length of contract, as appropriate)
4. Request statement of warranty (if appropriate)
5. Contact information for vendors to ask questions.
6. Quotation deadline date(s)
7. Projected decision date
8. Specification of bid minimum criteria
 - a. Proof of liability insurance when appropriate
 - b. Copies of appropriate licenses

In general, at least three bids should be obtained for expenditures where bidding is required by the matrix. In the case of extenuating circumstances, expenditures based on fewer than three bids may be authorized by the board providing the reasons are documented.

B. Selection of Winning Bid

The process of choosing a winning bid will vary depending on the nature of the work to be performed and the value of the expenditure. The key concept is proportional due diligence. Recognizing that the HOA is run by volunteer owners, this policy is intended to insure appropriate review and decision making without requiring senseless conformance to arbitrary guidelines.

Criteria to be considered in selecting vendors include:

1. Cost
2. Quality
3. Vendor qualification (appropriate resources, experience and scale)
4. Previous history (positive or negative) with the SMVE or other area HOAs.
5. Continuity of services (particularly when dealing with infrastructure maintenance)
6. Preference for local vendors when appropriate

The final selection of a vendor needs to reflect a common sense consideration of all these criteria. While cost is frequently a very important factor in vendor decisions, many circumstances may exist when there are good reasons to assign greater importance to other criteria. As a general guideline, the more technically difficult or risky the job, the more emphasis should be placed on previous experience, quality and continuity of services.

C. Periodic Rebidding

The HOA purchases certain services on an evergreen or ongoing basis. Examples might include landscape, maintenance or cleaning services. When viable competitors are available, such services should be reviewed and put out for bid at least every five years.

Contract Considerations

In accordance with the association CC & Rs, the SMVE HOA intends to follow prudent purchasing procedures in authorizing all expenditures. This is particularly important when contracts for goods or services are signed on behalf of the HOA. The existence of a contract generally signals that the proposed vendor will receive either a higher value purchase order or longer term agreement. Proposed contracts need to reflect a level of due diligence and care in proportion to the value and term of the transaction. The following is a list of considerations that should be reviewed and spelled out in contracts:

1. Appropriate government regulations must be followed. This may entail building permits or other approvals pertinent to the proposed transaction.
2. Proof of liability insurance protecting the HOA and owners must be received by the HOA prior to contract execution.
3. Vendors must provide proof of appropriate licensing and bonding.
4. A statement of work appropriate to the value, time frame and technical difficulty should be included.
5. In the case of construction and repair projects, the contract should specify an appropriate level of on site management by the vendor and specify procedures for the HOA to communicate issues to the vendor during performance of the contract. If appropriate, the contract should acknowledge the use of outside inspection by the HOA.
6. Subcontracting of any portion of the proposed work/product should specify the subcontractor, the specific work/product to be so subcontracted, and a definitive statement of warranty responsibility.
7. Contracts should specify appropriate terms including:
 - a. Timeframes (start and completion dates)
 - b. Renewal conditions
 - c. Termination clauses or sunset language
 - d. Warranty terms

In addition to the considerations above, HOA personnel participating in contract review should be aware of common mistakes or problems in such contracts:

1. Accepting vendor contract terms
2. Failing to obtain legal review of higher value contracts
3. Insuring contract language makes it clear the vendor is not an employee of the HOA
4. Vague termination or sunset terms
5. Failure to follow HOA purchasing guidelines
6. Vague warranty terms

Doing business with HOA owners:

As a general policy, the HOA should not do business with property owners of the association due to potential conflict of interest. However, it is possible that occasionally owners may have particular skills, which combined with knowledge of specific HOA needs, or offers of discounts, make it advantageous to the HOA to do business with owners. If such circumstances arise, any proposed expenditure for products or services from an HOA owner must be specifically approved by the Board of Directors. As part of the approval process, proposals for such services or products must also be obtained from outside sources following the general guidance used for approving long term contracts. Any such business done with property owners shall be reported on the annual financial report to SMVE homeowners along with the amount paid.

Vendor Disqualification:

The HOA shall maintain a list of vendors which the association will not do business with due to past poor performance or other valid reasons. The purpose of the list is to ensure that in the HOA situation where volunteers may change frequently, new board and committee members may be aware of previous bad experiences. Reasons for inclusion on the list include late performance of deliveries or services, poor quality, failure to make good on warranties, or other valid reasons. Input from other Fairfield HOAs may be considered. Additions to the exclusion list must be approved by the board. Any decision to remove a vendor from the exclusion list must also be approved by the board.

Definitions:

1. Contract – A legal document between the HOA and a vendor specifying precise terms for products or services to be delivered or performed by the vendor, the price to be paid by the HOA, and other pertinent terms such as time frames, specifications and quality standards, termination terms and other appropriate terms and conditions. Contracts are generally used for higher dollar and/or longer term agreements.
2. Evergreen – Any ongoing purchase arrangement or contract that is considered to be automatically renewing unless either party wishes to terminate.
3. Non contract expenditures – Any authorized agreement, written or verbal, committing the HOA to the purchase of goods or services.
4. Sunset Clause – A provision of a contract that specifies terms for terminating a contract or otherwise defining the conditions under which a contract is ended, allowed to expire or not renewed.