

PROCUREMENT PRACTICES

Introduction

In hotel operations, procurement of goods and services is the most vulnerable area which could lead to malpractice because hotels spend substantial amounts on goods (such as food and beverage, utensils, toiletries etc.) and services (such as cleaning and security services, group insurance services etc.). Besides making sure that purchases are value for money, it is important for the hotel management to establish a fair and competitive procurement system with sufficient safeguards to prevent abuse by unscrupulous staff.

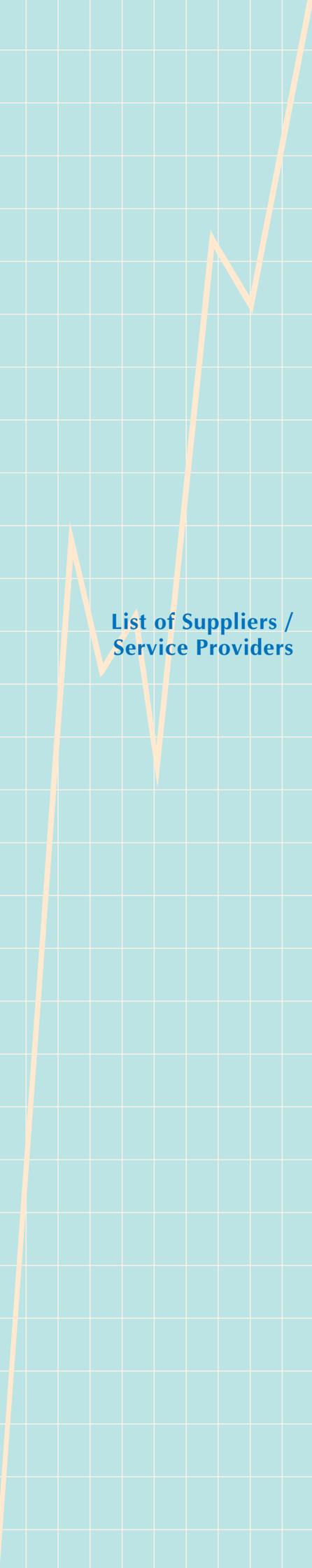
As hotel maintenance and renovation also incur considerable expenses and there is much room for corrupt manipulation in the letting and supervision of works contractors, this subject will be separately dealt with in **Chapter 6** of this module.

Basic Checks and Balances

Possible corruption in procurement includes compromised staff accepting rebates in return for favours to suppliers/service providers (e.g. placing orders/excessive orders or accepting substandard goods/services), colluding with them to inflate the prices of goods/services, setting up bogus firms to obtain purchase orders from the hotel, leaking confidential tender or quotation information, and circumventing proper purchase procedures or approval authorities through splitting of orders.

A sound procurement system should have the following checks and balances:

- **segregation of duties** (different staff should be assigned to source suppliers, evaluate quotations/tenders, accept goods and certify payments as far as possible);
- appropriate levels of **approval authorities for purchases** of different financial limits;



List of Suppliers / Service Providers

- **procurement methods** (e.g. by verbal or written quotations, tenders, or petty cash) for different types and values of purchases;
- **higher level of approval for special purchases** (e.g. urgent purchases or single source procurement requiring a waiver of the normal procurement method); and
- proper **documentation and supervisory checks**.

Where practicable, the management should compile approved lists of suppliers/service providers for commonly used items/services. This would help minimize the time required for sourcing bidders for every purchase and ensure that only eligible companies are invited to bid.

The following should be taken into consideration in maintaining an approved supplier/service provider list:

- The **criteria for inclusion or deletion of suppliers** should be well defined and made known to the suppliers/service providers (e.g. inclusion criteria such as size of company and years of experience, and deletion criteria such as poor performance).
- The list should be **approved by a panel** of staff or a senior staff member.
- Only those suppliers/service providers on the list should be invited to bid, **any deviation** from this practice or **added suppliers/service providers should be justified and approved** by a designated authority.



Purchase Requisitions

- The list should be **periodically updated** with a view to removing inactive suppliers/service providers or those under-performers and to expanding the list to admit new comers.
- There should be a **fair mechanism for shortlisting** the approved suppliers/service providers for invitation to bid (e.g. by rotation) and the shortlist should preferably be endorsed by a supervisor.

In hotel operations, a large number of purchases of values big or small are made everyday by different departments and various levels of staff. It is therefore important to have an accountable procedure to control the raising of requisitions (e.g. who should authorize the purchase and who should prepare the requisition).

While verbal orders is an expedient way to make purchases, the **use of a standard requisition form** would help enhance accountability and provide audit trail. The requisition form should include details such as the description, quantity and quality of the goods/services required, the expected date of delivery, the name of the requesting person, and the approval authority etc.

Any deviation from the laid down procedure should be justified and recorded (e.g. making an urgent order upon a hotel guest's request). In any case, the invoice of an urgent requisition should be endorsed and certified by the designated authority before payment.

Quotations

For procurement of goods and services that warrants a competitive process but the value of which does not justify an open tender exercise, written or verbal quotations are usually invited from a selected number of suppliers/service providers.

The following arrangements help enhance control and minimize the risk of manipulation:

- The **minimum number of bidders** to be invited for quotations in respect of purchases of different values and the authority for approving the selection of bidders should be laid down in an instruction.
- **All quotations**, whether obtained verbally or by fax, should be **protected from leakage before the closing time**. **Verbal quotations** should be recorded or confirmed in writing. **Faxed quotations** should be received by a designated fax machine installed in a secure area or by a computer system with password control. Before the closing time, all written quotations should be sealed and kept securely by a staff member not involved in the procurement process .
- To prevent manipulation, a supervisor may **randomly contact the invited bidders** to confirm the genuineness of the quotations received or contact the invited suppliers/service providers who have failed to respond to see if they have received the invitation to bid.
- **Random supervisory checks** should be conducted to see if the suppliers/service providers on the approved list have been given a fair chance to bid.



Evaluation and Handling of Samples

Samples of goods and products are often submitted by suppliers for testing and evaluation, some of them of high value. In the case of procurement of food and beverage, samples such as canned abalone, dried seafood, and bottles of wine are often received by the purchasing staff. Such samples may have resale value and they could be offers of advantages in disguise. Hence, the receipt and disposal of samples with a commercial value should be properly recorded in a register, including a description or brand name of the sample, the weight or quantity, the receiving staff, and disposal method, etc.

The number and level of staff assigned to handle the evaluation should be commensurate with the value of the purchase, e.g. the purchase of high value goods like birds' nests and sharks' fins. The evaluation of samples of food or wine should be conducted by a team of managerial staff together with the chef or the wine connoisseur.

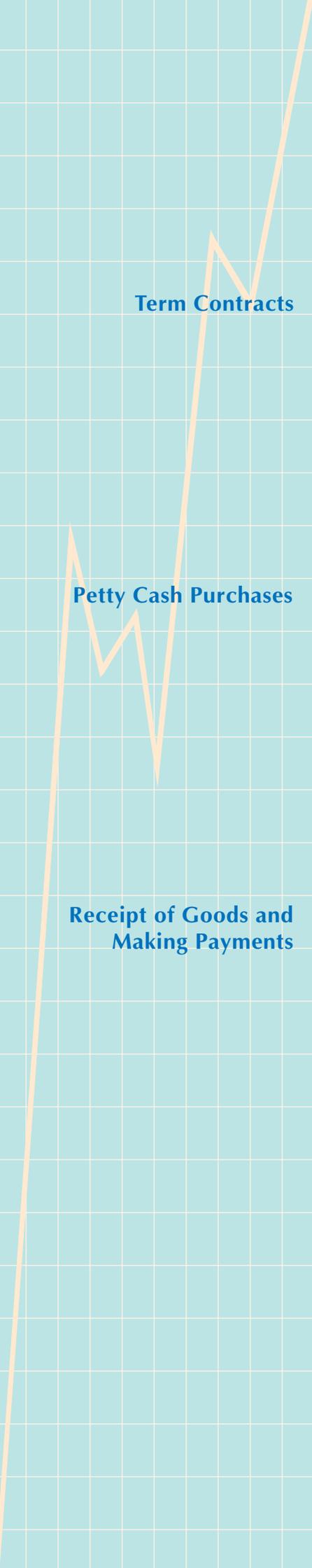
Tenders

Open or restricted tendering is usually conducted for the procurement of high-value goods and services beyond a specified cash threshold. To ensure purchases are value for money and to prevent abuse, the process should be fair and competitive.

The following arrangements are recommended for procurement by tender:

- Detailed **specifications** such as the description of goods, standard of service, tender evaluation criteria in broad terms, and other conditions (e.g. delivery schedules and payment terms) should be included in the tender documents to help the bidders in preparing their tenders.
- The tender documents should include **a warning against offer of advantages** to hotel staff.

- All tenderers should be given **the same information** and on the same occasion, if there is a tender briefing.
- Tenders to be submitted in duplicate should be deposited in a **double-locked tender box** with the keys held by separate staff members and the **duplicate copies should be kept by an independent party** to prevent tampering of tenders.
- A **deadline** should be set for tender submission. For the sake of fairness, late tenders should normally not be accepted unless there are good justifications and endorsement from a tender panel or managerial staff at the right level.
- Tenders should be opened by **an opening team** and recorded.
- If price is not the only consideration, **a tender assessment panel** should be set up to evaluate tenders in accordance with **pre-determined criteria** (e.g. tenderers' past performance if appropriate, the proposed standard of service and any after-sale service), using a **marking scheme**. For major contracts, a **two-envelope system** could be adopted to require the bidders to submit the technical and price proposals in separately sealed envelopes. The evaluation of the technical proposal should be made before the price envelope is opened.
- Unsuccessful bidders should be notified of the **tender result** as soon as possible.



Term Contracts

Direct purchases of small value goods/services often create opportunities for corrupt practices such as favouritism to a single supplier or tampering of quotations. Hence, for goods and services frequently in demand (e.g. consumables), hotels should appoint, through competitive means, **term suppliers or service providers** to cater for the need. This could also help save the time and resources spent on calling quotations for each direct purchase.

Petty Cash Purchases

Petty cash purchases should only be allowed for small and miscellaneous purchases. A **cash limit** and the **maximum expenditure on an item** should be set, beyond which the procurement staff should seek approval from more senior staff. A mechanism should be in place to **detect order splitting** (e.g. random checks on an item purchased and the total amount over a period of time). Cash payment should only be made against an invoice or a claim form duly certified by a supervisor.

Receipt of Goods and Making Payments

Acceptance of goods upon delivery is an area prone to abuse. Compromised staff could condone short delivery, accept sub-standard goods, or unduly certify payments. To deter malpractice, the following control measures are recommended:

- Goods delivered should be **inspected or tested** as appropriate, and counted against the quantity specified in the delivery note, cross-referencing the purchase order. A supervisor should monitor the receipt of goods of substantial value e.g. birds' nests and more senior staff should conduct random checks on the quality and quantity of goods received as frequent as necessary.
- A **staff member** not involved in the purchase should **certify acceptance of goods** if practicable.

Administration of Service Contracts

- **Defective or short-delivered goods** should be properly handled and recorded in accordance with established procedures (e.g. ask the supplier to make good the shortfall or notify the finance unit/manager to deduct payment).
- Payments for goods should be made against duly certified invoices, purchase orders and delivery notes. **Internal time limits should be set for certifying the invoice and effecting payment** to avoid undue delay because those suppliers who have a cash flow problem may resort to corrupt means in order to expedite payments.

In monitoring service providers, there should be an effective mechanism to monitor the standard of the service provided (e.g. security service) and to prevent compromised staff from conniving at the service providers' sub-standard work. The following measures are recommended for the administration of service contracts:

- The **terms of contract** should **specify the service standards** (e.g. the number of guard posts in the case of security contracts), the qualification and number of the supervisory staff required, the schedule of rates for items of work, as well as provisions for service variation, fee adjustment, and claims for default/poor service.
- The contract should also include a **probity clause** to prohibit the service providers' employees from soliciting or accepting advantages in the performance of their duties under the contract.
- **A system of inspection** should be established to check compliance with the pledged standards of service.
- **Regular meetings** should be held **with the service providers** to discuss problems and review service standards.



Other Measures

- There should be an **appraisal system** to assess the service providers' performance, taking into account users' feedback and any relevant complaints.
- A **disciplinary system** should be in place to sanction service providers who have been non-compliant with the contract conditions.

The following measures are recommended for the overall improvement of the procurement system:

- The procurement staff should always be required/reminded to **declare any conflict of interest** at the start of a quotation/tender exercise.
- **Management reports** showing the volume of business given to each supplier should be generated for review to facilitate detection of irregularities (e.g. favouritism to a particular supplier).
- **Manuals** covering the purchasing policy and procedures should be compiled for issue to staff.
- The management should issue **letters to term or major suppliers and service providers** informing them of the hotel's policy that staff are only allowed to accept token gifts. This could help dispel any doubt of the suppliers/service providers and deter offers of commissions and rebates to the hotel staff.