

Illinois Department of Corrections	ADMINISTRATIVE DIRECTIVE		Number	02.20.120
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			Effective	7/1/2002
Section	02	Fiscal and Business Management		
Subsection	20	Procurement		
Subject	120	Equipment Rentals and Leases		

I. POLICY

A. Authority

Illinois Procurement Code, 30 ILCS 500/1-1, et seq.

B. Policy Statement

The Department shall process all equipment rental and leases including short term, annual leases, multiple year leases, lease/purchases, and installment purchases in accordance with the guidelines in this directive, except leases for electronic data processing and telecommunications equipment and vehicles.

II. PROCEDURE

A. Purpose

The purpose of this directive is to establish a procedure for processing and obtaining appropriate approvals for rental or leases of equipment, except leases for electronic data processing (EDP) and telecommunications equipment and vehicles.

B. Applicability

This directive is applicable to all bureaus, divisions, and offices within the Department.

C. Internal Audits

An internal audit of this directive may be conducted annually in accordance with the facility internal audit schedule.

D. Designees

Individuals specified in this directive may delegate stated responsibilities to another person or persons unless otherwise directed.

E. Types of Equipment Rentals or Leases

Annual Lease – a lease agreement not to exceed one year. No purchase or equity arrangement or renewal options shall be included. Contractual appropriations shall be charged for annual leases. In most cases, this is the most expensive method of leasing and shall not be approved unless fully justified.

Installment Purchases – agreements to pay the principal (purchase price of the equipment) plus interest charges over a specified period of time where title to the property vests in the purchaser immediately. Installment purchase agreements shall normally be charged to the equipment appropriation; however, multiple year installment purchases of photocopy equipment shall be charged to the contractual services appropriations.

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Lease Purchase – agreements to lease where the title remains with the lessor until a specified time when the title may be acquired by the lessee merely by payment of a nominal amount or without any further payment. For example, an agreement where the option to purchase may be exercised upon the payment of any nominal amount that does not approximate the value of the item being leased is a lease purchase agreement. Also, a contract where the lessee obtains title after the last periodic payment required by the agreement is a lease purchase. Lease-purchase agreements shall normally be charged to the equipment appropriation; however, multiple year lease purchases of photocopier equipment and duplicating machines shall be charged to the contractual services appropriations.

Multiple Year Lease – lease agreements which exceed one year or have renewal options with no purchase or equity arrangement. Contractual appropriations shall be charged for multiple year leases.

Purchase Option Leases – a lease where the lessee has the right to acquire title to the property at some time during the term of the agreement for an additional payment. The additional payment shall be more than nominal. Leases with an option to purchase shall be charged to contractual services appropriations until the option is exercised. When the option is exercised, the payment shall be charged to the equipment appropriation with the exception of photocopier equipment which shall continue to be charged to the contractual services appropriation.

Rental – equipment rented for a period of less than one year; no purchase or equity arrangement or renewal options shall be included. Contractual appropriations shall be charged for short term rentals. Short term rentals will normally be for maintenance equipment required for a special project or for critical equipment being considered for purchase at a later date. However, equipment such as photocopier equipment shall not be considered for short term rental without prior approval of the Division of Finance.

F. General Provisions

1. Criteria for Rental or Leasing

Equipment may be considered or requested for rent or lease when one or more of the following criteria exists:

- a. The state of the art is such that technology is constantly changing.
- b. Equipment needs are for short term duration.
- c. A critical equipment purchase cannot be made due to temporary lack of equipment funds.

2. Duration of Leases

Leases for all types of equipment may be entered into for the useful life of the equipment or sixty months, whichever is less.

3. Bidding

- a. Formal bids as defined in Administrative Directive 02.20.181 shall be required for rentals or leases exceeding \$25,000.
- b. Informal bids as defined in Administrative Directive 02.20.181 shall be required for rentals or leases that exceed \$2,500 but are \$25,000 or less.

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- c. Telephone quotes shall be obtained from at least three vendors where possible for rental or lease of items where the expenditure is \$2,500 or less.

4. Approval Requirement

- a. Short-term rental agreements or annual leases of \$10,000 or less may be approved by the Chief Administrative Officer and be charged to the Contractual Services Appropriation. These agreements shall not contain any provision that would transfer ownership of the equipment at any time. If the rental agency requires a signature on a written agreement, the Business Administrator shall review the agreement to ensure that there are no provisions contrary to Illinois law or Department policy, including, but not limited to, payment of taxes, payment provisions contrary to statutes, or laws applicable to another state. However, these agreements shall be **limited** to the following:
 - (1) Machinery, mechanical, or construction equipment rented for a specific approved in-house project or emergency in-house repairs; and
 - (2) Postage meters (not mailing equipment), gas cylinders, or similar type equipment.
- b. Annual agreements may also be established by centers who have a large volume of the short term rentals described in Paragraph II. F. 4. a. If the annual expenditure with one rental agency exceeds \$2,500, but is less than \$10,000, and no single rental exceeds \$2,500, annual written bids shall be obtained and a contract shall be maintained in the facility Business Office. The contract will be considered an in-house contract signed by the vendor and the Chief Administrative Officer.
- c. All other short-term rentals shall have prior approval of the Director.
- d. Multiple year leases, leases with purchase options, lease purchases, and installment purchases shall require prior approval of the Director and approval of CMS, Bureau of Support Services, Procurement Services Division.

5. Accounting for Leases

- a. All leases, except annual leases, submitted to obligate funds shall be accompanied by a Comptroller's form, Accounting for Leases—Lessee Governmental and Similar Fund Types, Form SCO-559.
- b. The completed form will allow the Comptroller's Office to determine the State's incremental borrowing rate and if a lease should be capitalized. Section 27.20.59 of the Statewide Accounting Management System (SAMS) Manual provides instructions for completion of the form. The lessee's incremental borrowing rate box shall be left blank.
- c. The Comptroller's Office will determine if the lease will be classified as a capital lease and notify the Division of Finance, Accounting Section indicating the cost to be recorded in the property control records. The Accounting Section shall forward this report to the facility Business Office.
- d. Leases determined by the Office of the Comptroller to be capital leases shall also

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be recorded as an asset on a Quarterly Fixed Asset Report, Form C-15.

- e. Capital lease items shall not be entered into the Automated Property Control System.

G. Requirements

When there is a need to rent or lease equipment other than photocopy and mail machine equipment, the following procedures shall be followed:

1. For annual rental agreements or leases \$25,000 or less, the Business Administrator shall:
 - a. Obtain and record bids where applicable. Written bids are required for rentals or leases which exceed \$2,500;
 - b. Select a vendor;
 - c. Obtain the vendor's proposed lease agreement;
 - d. Ensure all provisions of the lease agreement are fully understood;
 - e. Obtain complete copies of the state contract provisions, where applicable, from the vendor;
 - f. If the cost for total rental period is over \$10,000:
 - (1) Prepare a Contract Obligation Document (COD); and
 - (2) Forward the COD and the lease agreement to the Procurement Section.
2. For rental agreements or leases that exceeds one year or over \$25,000:
 - a. The Business Administrator shall:
 - (1) Obtain approval from the Deputy Director of Finance.
 - (2) Input a requisition into the Illinois Governmental Purchasing System (IGPS) using Document Type "CIC". The requisition must include the following specifications:
 - (a) Quantity – number of months
 - (b) Unit Price – estimated unit cost per month
 - (3) Prepare an Equipment Lease/Finance Approval Request (ELFAR) form and forward to the Procurement Section.
 - b. CMS will bid out the lease, conduct the bid opening, and award the solicitation.
 - c. Once the solicitation is awarded, CMS will generate an Order for Release (OFR) via IGPS.
 - d. Upon receipt of the OFR and approved ELFAR, the Business Administrator shall:

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- (1) Obtain vendor and Taxpayer Identification Number (TIN) certifications from the vendor;
 - (2) Prepare an Accounting for Leases–Lessee Governmental and Similar Type Fund form SCO-559, if the rental agreement exceeds one year;
 - (3) Prepare a COD; and
 - (4) Forward the OFR, approved ELFAR, SCO-559 (if applicable), vendor and TIN certifications, and COD to the Procurement Section.
3. Photocopy and mail machine equipment rental requires the input of an Order for Release into IGPS, the preparation of an ELFAR and a COD. In addition, if the rental period exceeds one year, or bridges two different fiscal years, a Comptroller's form SCO-559 needs to be completed. All photocopy equipment rental requires approval of CMS.
 4. No commitment shall be made to the vendor nor delivery of equipment completed prior to obtaining all required approvals.
 5. Leases shall be recorded in the appropriate accounting and property control records.

Authorized by:

Donald N. Snyder Jr.
Director

Supersedes:

02.20.120

AD

8/1/1993