



To: APOs

AUD #19-07

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From: Audits, State Purchasing Division

Date: June 19, 2019

Re: Fiscal Year 2017 Audit of Exempt Purchase Orders (POs) issued by Team Georgia Marketplace™ (TGM) entities

Conclusion

We did not find any major issues with exempt purchase orders. Our audit identified 14,018 POs totaling \$435.7 million classified as exempt in fiscal year 2017. Exempt POs represented fewer than 10% of the POs issued in fiscal year 2017 by TGM entities: 9.7% of the 145,180 POs were classified as exempt, which amounted to 7.7% of the \$5.6 billion of the POs issued.

With few exceptions, exempt purchase orders were issued for purchases which qualified as exempt under the State Purchasing Act. Exempt POs did not appear to be used to circumvent the bidding process. We found 75% of the amount issued on exempt POs was coded to a non-exempt NIGP (National Institute of Governmental Purchasing) code. Despite not referencing an exempt NIGP code these POs appear to be for procurements that are exempt under the State Purchasing Act. Only 195 of the 538 NIGP codes on the exempt NIGP code list were used on exempt POs. In contrast, 721 non-exempt NIGP codes were used on POs coded as exempt. We did not uncover any fraud related to the issuance of exempt POs.

Background

Exempt POs allow state entities to conduct procurements outside of the required competitive process. Consequently, exempt POs could be used to circumvent state procurement laws and regulations by claiming that a procurement is exempt when it is not. Section 1.2 of the *Georgia Procurement Manual* (GPM) states:

There are three major factors in determining whether a purchase is subject to the State Purchasing Act:

- Identity of the purchasing entity,
- Identity of the provider/seller, and
- What is being procured.

Section 1.2.3 of the GPM provides further guidance on the purchase of goods and services exempt from competitive bidding which may not be assigned a specific exempt NIGP code.

Audit Objectives

1. Which NIGP codes were used on exempt POs?
2. Which agencies issued the most exempt POs?
3. Which agencies had the highest dollar amount of exempt POs?
4. Which three-digit NIGP categories were used on exempt POs?
5. Do exempt POs meet the requirements of the GPM?
6. Are exempt POs issued for non-exempt purchases?

Audit Summary

Our audit identified 52 agencies used the exempt PO type in fiscal year 2017 and that the exempt POs issued by the top 11 agencies¹ accounted for 89% of the total dollar amount of exempt POs issued in fiscal year 2017 as per **Table 1**.

Table 1
Exempt PO Amounts by Agency

State Entity	PO Amount	Percent
Human Services, Department of	\$211,019,423	48%
Economic Development, Department of	\$95,518,931	22%
Corrections, Department of	\$35,650,248	8%
Natural Resources, Department of	\$9,287,859	2%
Technical College System of Georgia	\$7,730,474	2%
Public Telecommunications Commission	\$6,179,524	1%
Community Supervision, Department of	\$5,027,559	1%
Georgia Bureau of Investigation	\$4,729,154	1%
Juvenile Justice, Department of	\$3,893,484	1%
DBHDD	\$3,831,398	1%
Savannah Technical College	\$3,829,433	1%
Source: PeopleSoft query TGM_oEPO019D_PO_SPEND_BY_DATE		

At the NIGP code level, the audit also identified that a PO coded as EXM was three times more likely to include non-exempt NIGP codes over exempt NIGP codes. See **Table 2** for more detail.

Table 2
Exempt POs by NIGP Code Type

NIGP Code Type	Amount	Number of Codes	Percent of Amount	Percent of Codes
Non-Exempt NIGP Code	\$327,363,706	721	75%	79%
Exempt NIGP Code	\$108,375,845	195	25%	21%
Source: PeopleSoft query TGM_oEPO019D_PO_SPEND_BY_DATE				

For non-exempt NIGP codes, the top 10 codes account for 66% of the total exempt PO spend as shown in **Table 3**. A further review of the NIGP codes summarized in **Table 3** revealed:

¹ One entity had \$3.9 million in exempt POs. Upon further review it was determined that \$1.0 million in POs were related to Hurricane Matthew and should have been coded to EMER PO type.

1. In most cases, all the POs for each code were issued by a single agency for a grant, public assistance, or a contract for a program (e.g. Head Start grants), and
2. The POs all related to the encumbering of funds, including Federal grants.

Table 3
PO Amount by Non-Exempt NIGP Codes

NIGP Code	Code Description	PO Amount	Percent
95243	Family and Social Services	\$91,060,198	21%
94685	Trusts, Estates and Agency Accounts	\$90,427,295	21%
95295	Youth Care Services	\$50,376,146	12%
95240	Elderly Assistance Services	\$13,390,159	3%
95259	Human Services (Not Otherwise Classified)	\$13,088,890	3%
96240	Food Distribution Services	\$9,022,296	2%
95013	Grants, Community Service Programs	\$4,928,917	1%
95284	Supplemental Food Services	\$4,690,823	1%
95294	Transportation Services: Elderly, etc.	\$4,620,271	1%
95247	Foster Care Services	\$4,279,044	1%
Source: PeopleSoft query TGM_oEPO019D_PO_SPEND_BY_DATE			

In contrast to the above data, for exempt NIGP codes, the top 10 NIGP codes account for only 18% of the total amount of exempt POs issued as shown in **Table 4**.

Table 4
PO Amount by Exempt NIGP Codes

NIGP Code	Code Description	PO Amount	Percent
91878	Medical Consulting	\$30,321,939	7%
97145	Office Space Rental or Lease	\$9,611,568	2%
71588	Textbooks, College Level	\$7,106,356	2%
92478	Teaching and Instruction Services	\$5,280,343	1%
94874	Professional Medical Services	\$3,963,180	1%
95221	Counseling Services	\$3,522,443	1%
91838	Education and Training Consulting	\$3,421,695	1%
91503	Advertising and Public Relations	\$2,640,387	1%
95635	Internet Database Subscriptions	\$2,409,043	1%
91804	Accounting, Auditing, Budget Consulting	\$2,320,011	1%
Source: PeopleSoft query TGM_oEPO019D_PO_SPEND_BY_DATE			

The audit also revealed interesting spend patterns at the three-digit NIGP category level – especially when the category includes both exempt and non-exempt NIGP codes.

Exempt POs were coded to 161 three-digit NIGP categories. Of these 161 three-digit categories:

- 119 three-digit categories contained only non-exempt NIGP codes;
- 27 three-digit categories contained both exempt and non-exempt NIGP codes; and,
- 15 three-digit categories contained only exempt NIGP codes.

Table 5 provides further detail on the three-digit categories used in exempt POs.

**Table 5
PO Amount by NIGP Three-Digit Category Exempt and Non-Exempt**

NIGP Category	Category Description	PO Amount Exempt	PO Amount Non-exempt	Total PO Amount
952	Human Services	\$3,522,443	\$195,530,620	\$199,053,063
946	Financial Services	\$59,650	\$91,524,109	\$91,583,759
918	Consulting Services	\$36,830,884	\$1,901,963	\$38,732,847
971	Real Property Rental or Lease	\$11,453,895	\$292,663	\$11,746,558
915	Communications and Media Related Services	\$9,887,742	\$1,711,504	\$11,599,246
962	Miscellaneous Services, No. 2 (Not Otherwise Classified)	\$2,789	\$11,036,871	\$11,039,660
963	Miscellaneous Fees, Dues, Permits, Registrations etc.	\$9,220,151	\$200,780	\$9,420,931
715	Publications, Audiovisual Materials, Books, Textbooks etc.	\$8,570,818	\$499,488	\$9,070,306
924	Educational & Training Services	\$5,280,343	\$1,902,004	\$7,182,347
785	School Equipment, Teaching Aids, and Supplies	\$1,349,674	\$5,042,785	\$6,392,459
961	Miscellaneous Services, No. 1 (Not Otherwise Classified)	\$3,618,856	\$2,721,708	\$6,340,564
Source: PeopleSoft query TGM_oEPO019D_PO_SPEND_BY_DATE				

Additional 3-digit categories that contain no exempt NIGP codes with significant spend amounts are shown below in **Table 6**.

**Table 6
Additional Non-Exempt NIGP Code Spend by Three-Digit Category**

NIGP Category	Category Description	PO Amount
920	Data Processing, Computer, Programming, and Software Services	\$1,387,698
393	Foods: Staple Grocery and Grocer's Miscellaneous Items	\$585,586
616	Office Supplies, General, Environmentally Certified	\$584,220
600	Office Machines, Equipment, and Accessories	\$34,185
615	Office Supplies, General	\$28,135
620	Office Supplies: Erasers, Inks, Leads, Pens, Pencils, etc.	\$7,987
Source: PeopleSoft query TGM_oEPO019D_PO_SPEND_BY_DATE		

Do exempt POs meet the requirements of the GPM?

As part of the audit we reviewed 55 POs classified as exempt to determine if the PO met the requirements of the GPM. For exempt POs, section 6.3.1.2 (Table 6.6) of the GPM requires the

“specific exemption being claimed must be identified in the PO comment field.” We found only 10 of the 55 (18%) POs reviewed identified the specific exemption. Of the 45 POs that did not identify the exemption, documentation (e.g. contract, quote, invoice) had been uploaded to TGM for 26 (47%) of the POs. Although no comment was added to the PO, the uploaded documentation helped explain the exempt status of the PO in these instances.

Are exempt POs issued for non-exempt purchases?

We looked at exempt POs at both the enterprise and individual PO level. At the enterprise level, exempt POs with the highest dollar amounts (summarized by NIGP codes in **Table 3**) were exempt because they were grants or public assistance to another governmental entity or to a non-profit entity. Transactions between the state and these types of entities create an exemption to the State Purchasing Act. This is covered in section 1.2.2 of the GPM under the identity of the provider/supplier. POs under these NIGP codes accounted for 66% of exempt POs.

At the individual PO level, we reviewed 55 exempt POs to determine if the POs were issued for non-exempt purchases. We found that 53 of the 55 (96%) POs were for exempt purchases. Two POs did not appear to be for exempt purchases.

Exempt POs and the Statewide Purchase Order Policy

In the final section of this audit, we looked at exempt POs and how they might be impacted by the Statewide Purchase Order Policy (rev. 07/01/2017). This policy removes the requirement for entities to create a purchase order for the following types of payments:

- Attorney and legal related payments, as such procurements are prescribed to the Department of Law via OCGA §45-15-34
- Benefit payments made directly to recipients
- Intergovernmental agreements/payments (e.g., GTA bills, Risk Management premiums, HRA assessments, etc.)
- Membership dues and/or subscriptions
- Payroll and associated tax and benefit payments
- Postage and shipping
- Real estate rental/lease payments
- Registration fees
- Sales and Use tax payments
- Travel expense reimbursements
- Utilities (e.g., electricity, telephone land lines, cell phone charges, etc.)
- WEX and ARI payments

Our review found that slightly more than 30% of the total amount of exempt POs was for intergovernmental agreements, postage and shipping, and utilities. A further 2% of the total amount of POs was for real estate rental or lease payments (see NIGP category 971 in **Table 5** above).

Recommendations

1. APOs are reminded of the requirement in Section 6.3.1.2 of the GPM that states “for all purchases identified as exempt, the reason for exemption must be identified in the [purchase

order] comments field.” SPD will further clarify this section of the GPM to not include purchases that have an exempt NIGP code.

2. APOs are requested to review the attached Statewide Purchase Order Policy (rev. 07/01/2017). If your internal processes require you to complete a PO to encumber funds for intergovernmental agreements, please use the PO type IGA. SPD policies or processes do not require the creation of POs for the payments listed in the SAO policy.



Statewide Business Process Policy & Procedure

Business Process Reference:

Section: Disbursements and Purchases
Title: Statewide Purchase Order Policy

Effective Date: 05/01/2014

Revision Date: 07/01/2017

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Background:

As part of an effective system of internal control within the procure-to-pay process, procedures should be in place to ensure that only approved purchases are made and ultimately paid for. Additionally, procedures should be in place to restrict money in the budget for approved purchases. Purchase orders along with other internal control procedures act as effective internal controls.

Business Policy Summary:

The policy is intended to provide organizations guidance relative to when a purchase order is expected in the procurement of goods and services.

Business Process Policy and Requirements:

Requirements - Except as noted below and when a final payment method is not a purchasing card (pcard), a purchase order is required for all purchases or obligations to purchase goods and services greater than \$2,500.

- Attorney and legal related payments, as such procurements are prescribed to the Department of Law via OCGA §45-15-34
- Benefit payments made directly to recipients
- Intergovernmental agreements/payments (e.g., GTA bills, Risk Management premiums, HRA assessments, etc.)
- Membership dues and/or subscriptions
- Payroll and associated tax and benefit payments
- Postage and shipping
- Real estate rental/lease payments

- Registration fees
- Sales and Use tax payments
- Travel expense reimbursements
- Utilities (e.g., electricity, telephone land lines, cell phone charges, etc.)
- WEX and ARI payments

When the final payment method is a pcard and consistent with the Payment Method policy (https://sao.georgia.gov/sites/sao.georgia.gov/files/related_files/site_page/BP_VM_PaymentMethod_12-1-2016%282%29.pdf), a purchase order is required, unless the purchase is unplanned, non-routine, or an urgent point of sale purchase under \$1,000.

All agency contracts, statewide contracts, and interagency agreements should also be procured consistent with this Purchase Order Policy. While not required as part of this Policy, agencies may, at their discretion, use purchase orders for any of the above categories, including obligations for less than \$2,500.

Accounting Treatment – Specifically, a purchase order will be recorded as an encumbrance payable and utilize budget dollars associated with the budget date entered on the purchase order. This will result in a credit to encumbrance payable and an offsetting entry (debit/charge) to the applicable expense account(s.)

Monitoring:

Organization management monitors their purchasing activity to ensure purchases orders are being used as required, which helps to ensure their internal control system is operating effectively. This monitoring could be accomplished via queries or reports out of Teamworks, or reviewing paid items for existence of purchase orders.

Authority:

Section 50-5B-3 OCGA provides that the state accounting officer shall:

- Prescribe statewide accounting policies, procedures, and practices;
- Prescribe the manner in which disbursements shall be made by state government organizations;
- Determine the proper classification for accounting and reporting purposes of all assets, liabilities, revenues, expenditures, fund balances, funds, and accounts in compliance with legal requirements and generally accepted accounting principles and prescribe a uniform classification of accounts and other accounting identifiers which shall be used by all state organizations;
- Develop processes and systems to improve accountability and enhance efficiency for disbursement of funds and management of accounts payable.

Applicability:

This business process applies to all Organizations included in the State of Georgia reporting entity. The term 'organization of state government' shall mean, without limitation, any agency, authority, department, institution, board, bureau, commission, committee, office, or instrumentality of the State of Georgia. Such term shall not include any entity of local government, including, but not limited to, a county, municipality, consolidated government, board of education, or local authority, or an instrumentality of any such entity. At these reporting organizations, all personnel with accounting and financial reporting responsibilities should be knowledgeable of this policy.