



**To:** CUPOs

**AUD #19-08**

**CC:** Lisa Eason, Deputy Commissioner, State Purchasing Division  
Mary Chapman, Director of Policy, Training and Outreach, State Purchasing Division

**From:** Audits, State Purchasing Division

**Date:** June 19, 2019

**Re:** Fiscal Year 2017 Audit of Exempt Purchase Orders (POs) issued by University System of Georgia (USG) entities

## **Conclusion**

We did not find any major issues with exempt purchase orders. Our audit identified 14,454 POs totaling \$324.2 million classified as exempt in fiscal year 2017. Exempt POs represented fewer than 10% of the POs issued in fiscal year 2017 by USG entities: 8% of the 178,988 POs were classified as exempt, which amounted to 24% of the \$1.35 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 47% 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 270 of the 538 NIGP codes on the exempt NIGP code list were used on exempt POs. In contrast, 1,225 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 entities issued the most exempt POs?
3. Which entities 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 29 entities used the exempt PO type in fiscal year 2017 and that the exempt POs issued by the top 10 entities accounted for 93% of the total dollar amount of exempt POs issued in fiscal year 2017 as per **Table 1**.

**Table 1**  
**Exempt PO Amounts by USG Entity**

State Entity	PO Amount	Percent
Georgia State University	\$110,733,917	34%
University of Georgia	\$64,266,162	20%
Kennesaw State University	\$52,366,343	16%
University of North Georgia	\$14,692,473	5%
Augusta University	\$14,294,999	4%
University System Office	\$12,114,544	4%
Valdosta State University	\$11,097,461	3%
Savannah State University	\$8,866,747	3%
Georgia Gwinnett College	\$6,598,211	2%
University of West Georgia	\$6,493,828	2%
Sources: 1) BOR_OPO019D_PO_LIST_BY_BU_DTL; 2) PO data provided by Augusta University, Georgia Institute of Technology, Georgia State University and University of Georgia.		

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	\$153,192,520	1,225	47%	82%
Exempt NIGP Code	\$170,983,937	270	53%	18%
Source: 1) BOR_OPO019D_PO_LIST_BY_BU_DTL; 2) PO data provided by Augusta University, Georgia Institute of Technology, Georgia State University and University of Georgia.				

For non-exempt NIGP codes, the top 10 codes account for 24% of the total exempt PO spend as shown in **Table 3**. A further review of the NIGP codes summarized in **Table 3** revealed:

1. In most cases, the majority (if not all) of the POs for each code were issued by a single USG entity, and

- There is no evidence of the widespread use of non-exempt NIGP codes by USG entities for spending at this level.

**Table 3**  
**PO Amount by Non-Exempt NIGP Codes**

<b>NIGP Code</b>	<b>Code Description</b>	<b>PO Amount</b>	<b>Percent</b>
91756	Lease Purchase, Buildings	\$21,783,509	7%
92595	Utilities, Gas, Steam, Electric Engineering	\$11,619,520	4%
96183	Utility Services, Electric	\$7,555,623	2%
92419	Educational Research Services	\$7,291,174	2%
93677	Substation High Voltage, Electrical Maintenance and Repair	\$6,666,112	2%
91065	Remodeling and Alteration Services	\$6,081,476	2%
90903	Administration of Contracts: Summary of Work, Quality Control, Project Closeout, etc.	\$5,845,252	2%
95826	Construction Management Services	\$4,511,724	1%
97164	Residential Space Rental or Lease	\$3,614,080	1%
95892	Travel Management Services	\$2,864,954	1%
Source: 1) BOR_OPO019D_PO_LIST_BY_BU_DTL; 2) PO data provided by Augusta University, Georgia Institute of Technology, Georgia State University and University of Georgia.			

In contrast to the above data, for exempt NIGP codes, the top 10 NIGP codes account for 35% of the total amount of exempt POs issued as shown in **Table 4**.

**Table 4**  
**PO Amount by Exempt NIGP Codes**

<b>NIGP Code</b>	<b>Code Description</b>	<b>PO Amount</b>	<b>Percent</b>
97145	Office Space Rental or Lease	\$45,429,995	14%
96185	Utility Services, Water	\$14,014,865	4%
95635	Internet Database Subscriptions	\$13,638,452	4%
97155	Parking Spaces in a Parking Lot or Garage, Rental or Lease	\$11,168,746	3%
91503	Advertising and Public Relations, Including Skywriting	\$7,577,931	2%
90607	Architect Services, Professional, (Not Otherwise Classified), Including Consulting	\$5,497,836	2%
96339	Fees (Not Otherwise Classified)	\$4,965,122	2%
90692	Utilities, Gas, Steam, Electric, Architectural Services	\$4,874,600	2%
96348	Membership Dues	\$3,053,623	1%
96347	Meals	\$2,967,580	1%
Source: 1) BOR_OPO019D_PO_LIST_BY_BU_DTL; 2) PO data provided by Augusta University, Georgia Institute of Technology, Georgia State University and University of Georgia.			

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 220 three-digit NIGP categories. Of these 220 three-digit categories:

- 169 of three-digit categories used contained only non-exempt NIGP codes;
- 35 of the three-digit categories used contained both exempt and non-exempt NIGP codes; and,

- 16 three-digit categories used 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**

<b>NIGP Category</b>	<b>Category Description</b>	<b>PO Amount Exempt</b>	<b>PO Amount Non-Exempt</b>	<b>Total PO Amount</b>
971	Real Property Rental or Lease	\$59,153,030	\$5,923,377	\$65,076,407
961	Miscellaneous Services, No. 1 (Not Otherwise Classified)	\$18,713,400	\$9,091,629	\$27,805,029
917	Contracted Services and Rentals, Higher Education	\$0	\$21,916,870	\$21,916,870
956	Library and Subscription Services	\$16,342,843	\$3,755,447	\$20,098,290
963	Miscellaneous Fees Dues Permits Registrations etc.	\$18,774,577	\$0	\$18,774,577
910	Building Maintenance Installation & Repair Services	\$0	\$15,501,325	\$15,501,325
906	Architectural Services - Professional	\$15,369,512	\$22,302	\$15,391,814
925	Engineering Services - Professional	\$497,481	\$12,728,104	\$13,225,585
915	Communications and Media Related Services	\$12,214,066	\$847,366	\$13,061,432
918	Consulting Services	\$6,162,551	\$6,049,851	\$12,212,402
924	Educational & Training Services	\$2,897,687	\$7,566,834	\$10,464,521
490	Laboratory Equipment, Accessories, Supplies: General	\$1,834,713	\$6,179,239	\$8,013,952
958	Management and Operation Services	\$0	\$7,784,948	\$7,784,948
909	Building Construction Services, New	\$0	\$7,703,348	\$7,703,348
936	Equipment Maintenance & Repair Services - General Equipment	\$40,778	\$7,546,055	\$7,586,833

Source: 1) BOR\_OPO019D\_PO\_LIST\_BY\_BU\_DTL; 2) PO data provided by Augusta University, Georgia Institute of Technology, Georgia State University and University of Georgia.

Additional non-exempt NIGP codes with significant spend amounts are shown below in **Table 6**.

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

<b>NIGP Category</b>	<b>Category Description</b>	<b>PO Amount</b>
962	Miscellaneous Services, No.2 (Not Otherwise Classified)	\$3,614,304
475	Hospital, Surgical and Medical Related Accessories	\$2,535,969
948	Health Related Services	\$2,412,918
952	Human Services	\$1,861,511
495	Laboratory Equipment, Accessories, Supplies: Biology Botany	\$1,801,464
493	Laboratory Equipment, Accessories, Supplies: Biochemical, Chemical etc.	\$1,792,273
175	Chemical Lab Equipment & Supplies	\$1,692,564
115	Biochemicals, Research	\$1,640,436

Source: 1) BOR_OPO019D_PO_LIST_BY_BU_DTL; 2) PO data provided by Augusta University, Georgia Institute of Technology, Georgia State University and University of Georgia.
---

### **Do exempt POs meet the requirements of the GPM?**

As part of the audit we reviewed 36 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 two of the 36 POs (6%) reviewed identified the specific exemption. Of the 34 POs that did not identify the exemption, 29 of the POs used an exempt NIGP code. Although no comment was added to the PO, the NIGP codes used helped explain the exempt status of the PO in these instances. For the remaining five POs that did not use an exempt NIGP code, the reason for the exemption was clearly discernable for four of the POs. The remaining PO was not exempt and should have been coded as AC or CSN.

### **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 non-exempt NIGP codes in **Table 3**) were exempt because they were for real property lease or rental, utility services, the disbursement of sponsored (research) funds, public works construction and student travel/study abroad programs. The exemptions for real property lease or rental, utility services and the disbursement of research funds are covered by the exemptions granted to items within the three-digit NIGP categories 971, 961 and 924 respectively. The exemption for public works construction is covered in sections 1.2.1.2 and 1.3.6.1 of the GPM. Study travel/study abroad expenditure is considered hard-to-bid and is permitted as an exemption.

Purchase orders under the 10 codes in **Table 3** accounted for 24% of exempt PO amounts.

At the individual PO level, we reviewed 36 exempt POs to determine if the POs were issued for non-exempt purchases. We found that 35 of the 36 (96%) POs were for exempt purchases. One PO did not appear to be for exempt purchases. This PO should have been coded as AC or CSN as per the USG.

### **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) issued by the State Accounting Office (SAO). 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 15% of the total amount of exempt POs was for intergovernmental agreements, postage and shipping, and utilities. A further 20% of the total amount of POs was for real estate rental or lease payments (see NIGP category 971 in **Table 5** above).

## **Recommendations**

1. CUPOs 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. CUPOs 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 any of 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

**Index:**

[Background](#)

[Business Policy Summary](#)

[Business Process Policy and Requirements](#)

[Monitoring](#)

[Authority](#)

[Applicability](#)

**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](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.