



To: APOs and CUPOs

AUD #25-23

CC: Jim Barnaby, Deputy Commissioner, State Purchasing Division
Mary Chapman, Deputy Division Director

From: Audits, State Purchasing Division

Date: December 31, 2024

Re: Audit of Exempt Purchases – POs issued in September 2024

Conclusion

Overall, we did not find any major issues with exempt purchase orders (POs); however, exempt POs that had a non-exempt NIGP (National Institute of Governmental Purchasing) code did not identify the specific exemption claimed in a PO comment field in 42% of the POs sampled, as required by section 6.3.1.2. of the Georgia Procurement Manual (GPM). Exempt POs were issued for purchases that qualified as exempt under the State Purchasing Act and did not appear to be used to circumvent the bidding process. The audit team did identify some issues with NIGP codes and the use of the exempt PO type.

Background

Coding a PO as exempt or “EXM” indicates the state entity is conducting the procurement outside of the procurement processes defined by the GPM. There are some exemptions where competitive bidding requirements do not apply and other exemptions where these requirements still do. Consequently, some exemptions could be used to circumvent competitive bidding requirements by claiming a PO is exempt when it is not. Section 1.2 of the 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.”

These factors are explained in greater detail in the paragraphs below.

Identity of the purchasing entity

As an example of an exemption based on the identity of the purchasing entity, the Georgia Department of Transportation is exempt from the State Purchasing Act for contracts for construction, public works, and services ancillary to the construction and maintenance of a public road. In this instance, coding the PO as exempt does not necessarily mean that competitive bidding is not required or has not occurred; rather, the procurement process was not conducted pursuant to the State Purchasing Act. These types of exemptions are summarized in table 1.3 in section 1.2.1.2. of the GPM.

Identity of the provider/seller

An example of an exemption based on the identity of the provider/seller includes contracts for services only with non-profit entities. These types of exemptions are covered in table 1.4 in section 1.2.2. of the GPM.

What is being procured

For exemptions based on what is being procured, SPD has established a list of NIGP codes to assist agencies in coding and identifying these specific commodities and services. This list is referred to as the NIGP code exempt list and is referenced in section 1.2.4. of the GPM. The NIGP code exempt list does not necessarily include commodities or services that may only be exempt for select agencies. Further, the NIGP code exempt list is not applicable when the exemption is based on the identity of the purchasing entity or the identity of the provider/seller. Last, section 1.2.3. of the GPM provides further guidance on the use of exempt NIGP codes where goods and services are exempt from competitive bidding but are not designated by a specific exempt NIGP code.

The audit scope and methodology used in this audit are summarized in **Appendix A**.

Audit Summary

For September 2024, SPD Audits identified every PO coded as an exempt purchase across the enterprise with a dollar amount of \$25,000 or greater. This resulted in 403 POs that totaled \$72.9 million. These 403 POs represented 15% of all exempt POs for September 2024.

Audit Objectives

1. Do exempt POs meet the requirements of the GPM?
2. How many exempt POs use exempt NIGP codes?
3. How many exempt POs use other (non-code) exemptions?

As part of the audit, we reviewed 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 if the use of exempt NIGP codes is not applicable.”

Audit Issues

In September 2024, 2,759 POs totaling \$80.9 million were coded exempt.¹ Of these POs, 403 POs were \$25,000 or more. These 403 POs totaled \$72.9 million, or 90% of all exempt POs issued in September 2024.

SPD Audits found that:

- 225 (56%) of the 403 POs sampled were exempt through the use of an exempt NIGP code on the PO. These POs that were exempt by NIGP code totaled \$36.3 million (50%) of the \$72.9 million of POs reviewed.
- 178 (44%) POs sampled did not use an exempt NIGP code on the PO. These POs totaled \$36.6 million (50%) of the \$72.9 million of POs reviewed.

¹ Please see Appendix A for audit background, scope, and methodology.

POs without an exempt NIGP Code

POs that do not use an exempt NIGP code are required to identify the specific exemption in the PO comments field (at the header or line level of the PO). In the audit sample, 105 (59%) of the 178 POs (that did not use an exempt NIGP code) had the exemption stated in the PO comments field or in documentation attached to the PO. These POs totaled \$22.6 million (62%) of the \$36.6 million of POs reviewed without an exempt NIGP code. Of the 105 POs where a specific exemption was claimed, SPD Audits found the following:

Technical Instruments

Forty (38%) of these POs claimed the “technical instruments” exemption. These exemptions appeared to be for purchases of technical instruments and supplies. Technical instruments and supplies are exempt from competitive bidding requirements in section 1.2.3.2. of the GPM.

Non-Profit Entity

Twenty-nine (28%) of these POs claimed the “non-profit” exemption. Section 1.2.2. of the GPM allows non-profit entities to be exempt from the State Purchasing Act but for services only. The audit team reviewed these POs to determine if the non-profit provided services. After reviewing these POs, we determined the POs used a service NIGP code, i.e., a NIGP code beginning with 9, to indicate a service was provided. The POs reviewed were verified to be for the procurement of services as required per section 1.2.2. of the GPM.

Direct Resale

Eleven (11%) of these POs claimed the direct resale exemption. Direct resales through a state entity operated service, such as, a bookstore or cafeteria are exempt from the State Purchasing Act.

NIGP Code

Eleven (11%) of these POs claimed an NIGP code as the exemption. The NIGP code cited on seven (7) POs was 28748 for microwave equipment and accessories, which is an exempt NIGP code. The NIGP code cited on one PO was 96348 for membership dues, which is an exempt NIGP code. The NIGP code cited on one PO was 03540 for equipment and supplies, airplane (not otherwise classified), which is not an exempt NIGP code.

Rent/Lease

One (1%) PO claimed the “rent/lease” exemption. This exemption appears to be for the rental or leasing of facilities. Rent/Leasing is exempt from competitive bidding requirements in section 1.2.3.1. of the GPM.

Subscriptions

One (1%) PO claimed the “subscription” exemption. The services provided under these POs appear to fall under Section 1.2.4. of the GPM, which are exempt goods/services by NIGP code.

Other Exemptions Claimed

Eleven (11%) of these POs claimed other exemptions not specifically listed in the GPM. These POs were as follows:

- Five POs were related to Federal or state grants, which the grant was claimed as an exemption. The grant money in these POs were distributed to non-profit organizations. In these cases, the non-profit exemption should have been claimed.
- Three POs had utilities claimed as the exemption. The POs were for electrical utility services, which do not require a PO under the State Accounting Office (SAO) policy on disbursements and purchases. These exemptions seemed to be appropriate. Although NIGP codes 96183 and 96184 were used for utility contract services, they are not exempt NIGP codes.
- One PO had testing was claimed as an exemption. The NIGP code used on the PO is 20854, which is not an exempt NIGP code. The PO was issued to a non-profit for services. In this case, the non-profit exemption should have been claimed.
- One PO had foundation claimed as the exemption. This PO was issued from a university to one of its foundations. The PO was for insurance premiums and the NIGP code used on the PO is 95352, which is not an exempt NIGP code. The non-profit exemption should have been claimed.
- One PO had a statewide contract claimed as the exemption. The PO was issued to a non-profit for services. In this case, the non-profit exemption should have been claimed.

One (1%) PO totaling \$124,660 was found to be non-compliant. The exemption claimed on this PO was “EXM-WM Monthly Garbage Waste”. The PO was issued to a supplier for “FY2025 6 Yard Dumpster Service Monthly Services”. NIGP code 91027 was used, which is not an exempt code. This service is not exempt from the State Purchasing Act and should have been awarded through a solicitation.

For the remaining 73 (41%) of the 178 POs, the exemption claimed was not stated in the PO comments field. These POs totaled \$14.0 million of the \$36.6 million of POs reviewed without an exempt NIGP code. This requirement is important since, in most cases, it is known why the good or service is exempt.

Other issues noted

In our sample of 403 POs, SPD Audits also identified issues with PO types, which are summarized below.

PO types

There were some instances where a different PO type than exempt could have been used. These are summarized below.

- Intergovernmental agreements (IGA): Eight POs totaling \$2.1 million were issued to another government entity. In these instances, “IGA” for intergovernmental agreements should be used as the PO type.
- Sole source (SS): Nine POs totaling \$1.4 million contained Sole Source Justification Forms. In these instances, “SS” for Sole Source should be used as the PO type.

Recommendations

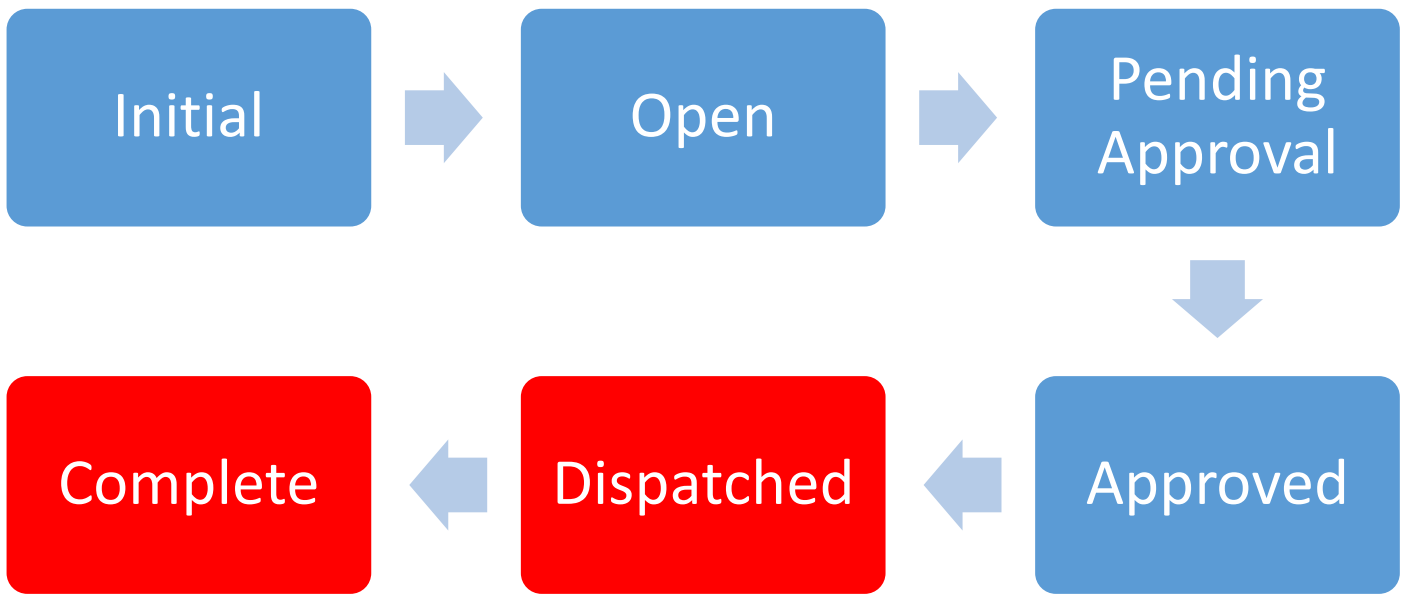
1. SPD will issue a communication for APOs/CUPOs regarding best practices with exempt POs and reiterate the importance of citing the exemption claimed in the PO comments field as required by section 6.3.1.2. of the GPM if an exempt NIGP code is not used on the PO.
2. State entities should periodically review their exempt PO activity to ensure that their internal procedures and practices remain consistent and compliant with the practices permitted by the State Purchasing Act and all parts of section 1.2 of the GPM. This review should include analyzing existing long-term purchasing practices and relationships and allow the state entity to quickly identify the nature of the exemptions being claimed and the section of the GPM being applied.

Appendix A

Audit Background, Scope, and Methodology

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This audit is of purchase orders (POs) issued in September 2024 - PO dates between September 1, 2024, through September 30, 2024. The purchase type codes, PO amounts, and PO dates were current as of the date the PO queries were run, which was in October 2024. The PO queries come from different financial systems. Except for the Georgia Institute of Technology, which uses Workday, all other audited state entities use PeopleSoft for their financial system. It is not the same instance of PeopleSoft since each instance is configured differently. The objective of the audit was to audit POs issued or dispatched. Since the PO queries are run from different financial systems, the terminology used to indicate the PO status varies. For TGM entities, the PO life cycle consists of the following steps:



Only those POs in the stage of dispatched or complete were included in this audit. Phases, before dispatched, represent the internal approval process a state entity uses before the PO is sent to the supplier. For the TGM entities, this is known as dispatched. Complete is the status used when the PO is closed and can no longer be modified or used.