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To: APOs and CUPOs **AUD #26-13**

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

From: Audits, State Purchasing Division

Date: September 30, 2025

Re: Audit of Exempt Purchases – POs issued in August 2025

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 31% 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 August 2025, 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 458 POs that totaled $113.6 million. These 458 POs represented 15% of all exempt POs for August 2025.

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." Simply describing the goods or services that were purchased does satisfy the requirement of stating the specific exemption that is being claimed.

Audit Issues
In August 2025, 3,157 POs totaling $123.4 million were coded exempt.[1] Of these POs, 458 POs were $25,000 or more. These 458 POs totaled $113.6 million, or 92% of all exempt POs issued in August 2025.

SPD Audits found that:
- 305 (67%) of the 458 POs sampled were exempt through the use of an exempt NIGP code on the PO. These POs that were exempt by NIGP code totaled $37.6 million (33%) of the $113.6 million of POs reviewed.
- 153 (33%) POs sampled did not use an exempt NIGP code on the PO. These POs totaled $76.0 million (67%) of the $113.6 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, 106 (69%) of the 153 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 $61.8 million (81%) of the $76.0 million of POs reviewed without an exempt NIGP code. Of the 106 POs where a specific exemption was claimed, SPD Audits found the following:

<u>Technical Instruments</u>
Fifty-one (48%) 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.

<u>Non-Profit Entity</u>
Twenty (19%) 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.

<u>NIGP Code</u>
Eight (8%) of these POs claimed a NIGP Code as an exemption. The NIGP code cited on two POs was 28748 for Microwave Equipment and Accessories: Band Pass Filters, Coaxial Attenuators, Couplers, Switchers, Tellurometers, Tuners, Wave Guides, Not Communication Type, which is an exempt NIGP code. The NIGP code cited on one of the POs is 20811 for Applications Software, (Not Otherwise Classified), Microcomputer, which is not an exempt NIGP code. The NIGP code cited on another PO is 78570 for Instructional Aids, Courses, Lesson Plans, Prepared, Programed, Ancillary Materials, DVDs, etc. (see class 715 for Textbooks), which is an exempt NIGP code. The NIGP code cited on another PO is 89865 for Radiation Therapy Equipment and Accessories, X-Ray, which is not an exempt NIGP code. The NIGP code cited on another PO is 72647 for Frequency Data Communication, Equipment, Radio (Including Identification Equipment), which is an exempt NIGP code. The NIGP code cited on another PO is 96364 for Registration Fees (Not Otherwise Classified), which is an exempt NIGP code. The NIGP code cited on the final PO was 25740 for Homeland Security Equipment and Accessories (Not Otherwise Classified), which is an exempt NIGP code.

<u>Direct Resale</u>
Six (6%) 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.

<u>Public Works Construction</u>
Six (6%) of these POs claimed the construction/public works exemption. Section 1.3.6.1. of the GPM allows University System of Georgia (USG) entities under the Board of Regents to have their construction and public works contracts to be exempt from the State Purchasing Act. The projects on these POs appeared to fall under this exemption.

Subaward

Two (2%) of these POs claimed exemption based on being "subawards". When awarding, sub-awarding, passing-through, and distributing grants funds to a subgrantee - this activity is outside the purview of the Department of Administrative Services. While the grant process itself may be competitive in nature, the distribution of grant funds by a state entity to a subgrantee, via a purchase order, is not subject to the State Purchasing Act. APOs/CUPOs should consult with their legal, fiscal and program staff in addition to the applicable grantor or oversight entity for additional guidance related to grant subawards.

Professional Services

One (1%) PO claimed the "professional services" exemption. Professional services provided under these POs appear to fall under Section 1.2.3.1 of the GPM, which are exempt goods/services by NIGP code.

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 (9%) of these POs claimed other exemptions not specifically listed in the GPM. These exemptions were as follows:

- Two POs were for "Consulting" which was claimed as the exemption. The NIGP codes used on the POs were 91813 and 95877, which are not exempt NIGP codes. These consulting services do not appear to be exempt and could be non-compliant since the POs were over the bid threshold.
- One PO was for "Utilities" which was claimed as the exemption. The NIGP code used on the PO was 96183, which is not an exempt NIGP code. DOAS is considering updating the NIGP exempt list with the NIGP codes 96183 for Electrical Utility Services and 96184 for Gas Utility Services. The intent of the update is to exempt all utility services except when customer choice is available within the location.
- One PO was for "Housing" which was claimed as the exemption. This PO was for overflow student housing and the NIGP code used on the PO was 97164, which is not an exempt NIGP code. It is unclear if the housing could have been competitively bid.
- One PO was for "Advertisement" which was claimed as the exemption. This PO was for a recruiting platform. The NIGP code used on the PO was 91807, which is not an exempt NIGP code. This service does not appear to be exempt and could be non-compliant since the PO was over the bid threshold.
- One PO was for "Architect" which was claimed as the exemption. The NIGP code used on the PO was 91812, which is not an exempt NIGP code. This service appeared to be exempt under professional services and the exempt NIGP code 90607 Architect Services, Professional (Not Otherwise Classified), Including Consulting should have been used.
- One PO was for "Athletic Association", which was claimed as the exemption. The NIGP code used on the PO was 91039, which is not an exempt NIGP code. The athletic association in question is not subject to the State Purchasing Act.
- One PO was for "Student Activities" which was claimed as an exemption. The NIGP code used on the PO was 20853, which is not an exempt NIGP code. The student activities fund used is not subject to the State Purchasing Act.

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- One PO was for “NGMA” (North Georgia Mountains Authority), which was claimed as the exemption. The NIGP code used on the PO was 90976, which is not an exempt NIGP code. The services seem to fall under the exempt NIGP code 94631 Certified Public Accountant (CPA) Services. The North Georgia Mountains Authority, as an authority, is exempt from the State Purchasing Act and administratively attached the Department of Natural Resources.
- One PO was for “HR” which was claimed as the exemption. This PO was for executive search services. The NIGP code used on the PO was 91158, which is not an exempt code. This service does not appear to be exempt and could be non-compliant since the PO was over the bid threshold.
- One PO was for “DOAS Exemption” which was claimed as the exemption. The NIGP code used on the PO was 42059, which is not an exempt NIGP code. A Notice of Award and a waiver request to DOAS was attached, however DOAS approval was not attached to the PO. Since a solicitation was done this PO should have been coded as an agency contract.

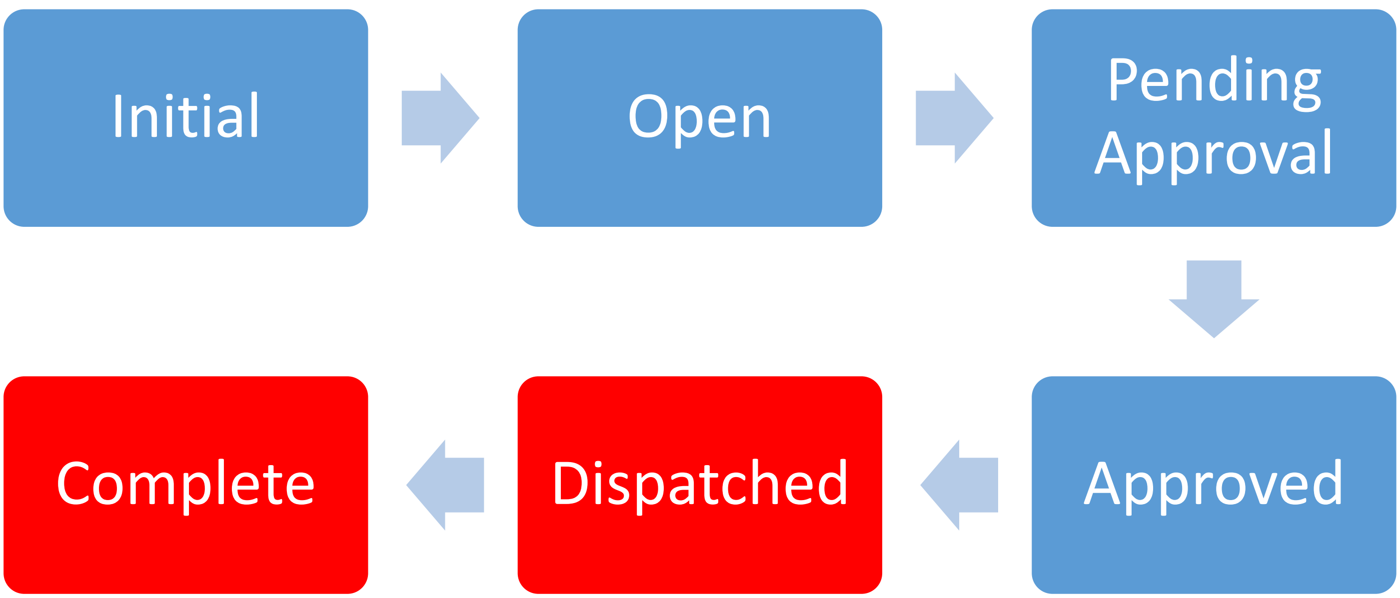
For the remaining 47 (31%) of the 153 POs, the exemption claimed was not stated in the PO comments field. These POs totaled $14.2 million of the $76.0 million of POs reviewed without an exempt NIGP code. This requirement is important since, in most cases, it is not known why the good or service is exempt.

Other issues noted
In our sample of 458 POs, SPD Audits also identified 20 POs totaling $3,824,841 that were issued to another government entity. In these instances, “IGA” for intergovernmental agreements 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

This audit is of purchase orders (POs) issued in August 2025 - PO dates between August 1, 2025, through August 31, 2025. The purchase type codes, PO amounts, and PO dates were current as of the date the PO queries were run, which was in September 2025. 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.