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To: APOs and CUPOs **AUD #23-52**

CC: Jim Barnaby, Deputy Commissioner, State Purchasing Division
Mary Chapman, Deputy Division Director
Mukesh Patel, State Purchasing Division Portfolio Manager

From: Audits, State Purchasing Division

Date: May 5, 2023

Re: Audit of Open Market Purchases – POs issued in February 2023

Background

Section 1.3.4.5 of the Georgia Procurement Manual (GPM) provides that state entities "may elect to go to the open market to identify a source of supply for the needed good or service (if) the APO/CUPO determines an open market purchase is the appropriate purchasing method under Tier 4 of the Order of Precedence." When the competitive bidding rules are applicable, under normal circumstances, this election may only be made when no source of supply exists from a:

1. mandatory statewide contract (Tier 1 of the Order of Precedence)
2. existing state entity contract (Tier 2 of the Order of Precedence)
3. the statutory source of supply (Tier 3 of the Order of Precedence)

When purchasing from the open market, "the state entity may not split reasonably foreseeable or related purchases into two or more transactions to circumvent the requirement that any purchase of $25,000 or more is based on competitive bidding." Section 6.3.1.2 of the GPM states the purchase type of OMP should be used if "A state entity's purchase made on the open market regardless of the dollar amount on a one-time basis (e.g., the state entity is not establishing a term contract)." Selecting the correct purchase type code of "OMP" for open market purchases allows accurate spend data to be collected by various staff, from contract managers, entity procurement staff, budget analysts, and auditors. The audit scope and methodology used in this audit are summarized in **Appendix A**.

Audit Summary

SPD Audits reviewed every PO coded as an open market purchase across the enterprise with a dollar amount of $50,000 or greater. This sample included 50 POs that totaled $10.4 million. These 50 POs represented 0.19% of all OMP POs for February 2023.

Audit Objectives

1. Determine if OMP POs were coded correctly.
2. For OMP POs miscoded, identify the correct purchase type.
3. Identify areas for improvement related to the coding of OMP POs.

Audit Issues

In February 2023, 26,469 POs totaling $42.4 million were coded as an open market purchase (OMP). Of these POs, 50 POs were $50,000 or more. These 50 POs totaled $10.4 million, or 25% of all OMP POs issued in February 2023. SPD Audits reviewed these POs to determine if they were correctly coded as OMP.

SPD Audits found that 36 (72%) of the 50 POs sampled appeared to be incorrectly coded as OMP. These POs totaled $7.3 million (70%) of the $10.4 million POs reviewed. These 36 POs appeared to be miscoded for the following reasons. These POs are also summarized in **Table 1**.

1. State entity contract (AC) – these POs appeared to be related to an agency contract (AC) since an existing contract was attached to the PO or a contract number was referenced in the PO header or cited in the Contract ID field.
2. Exempt (EXM) – these POs were related to services or products exempt from the State Purchasing Act or used an exempt NIGP code on the PO.
3. Intergovernmental Agreements (IGA) – these POs were related to grant awards from state entities, most often to local government entities, POs to GCI, or POs issued to other state entities. POs of this sort should be coded as IGA.
4. Statewide contracts (SWCC or SWCM) – these were POs to suppliers on either statewide convenience contracts (SWCC) or statewide mandatory contracts (SWCM). The statewide contract number was sometimes cited in the Contract ID field.

Table 1
Summary of OMP POs,
which appear to be miscoded - February 2023

Original Purchase Type Code	Correct Purchase Type Code	Description	Number of POs	PO Amount
OMP	AC	State Entity Contract	20	$3,196,362
OMP	EXM	Exempt	7	$2,102,911
OMP	IGA	Intergovernmental Agreement	2	$1,055,833
OMP	SWCC	Statewide Contract - Convenience	5	$659,067
OMP	SWCM	Statewide Contract - Mandatory	2	$296,794
		Total	**36**	**$7,310,967**

Sources: 1) PeopleSoft query TGM_0EPO019D_PO_SPEND_BY_DATE; 2) BOR_OPO019D_PO_LIST_BY_BU_DTL; 3) PO queries for Georgia Institute of Technology, Georgia State University, and Augusta University; and 4) PO data provided by the University of Georgia.

Sixteen of these POs were related to a solicitation or posting on the Georgia Procurement Registry (GPR). These events should have resulted in 11 state entity contracts, four sole source, and one consortia POs.

For the remaining 14 POs, we found the following:

1. Ten (10) POs, totaling $1.4 million, were correctly coded as OMP. These POs were conducted as procurements outside of the authority of the State Purchasing Act and not under the purview of the Department of Administrative Services (DOAS).

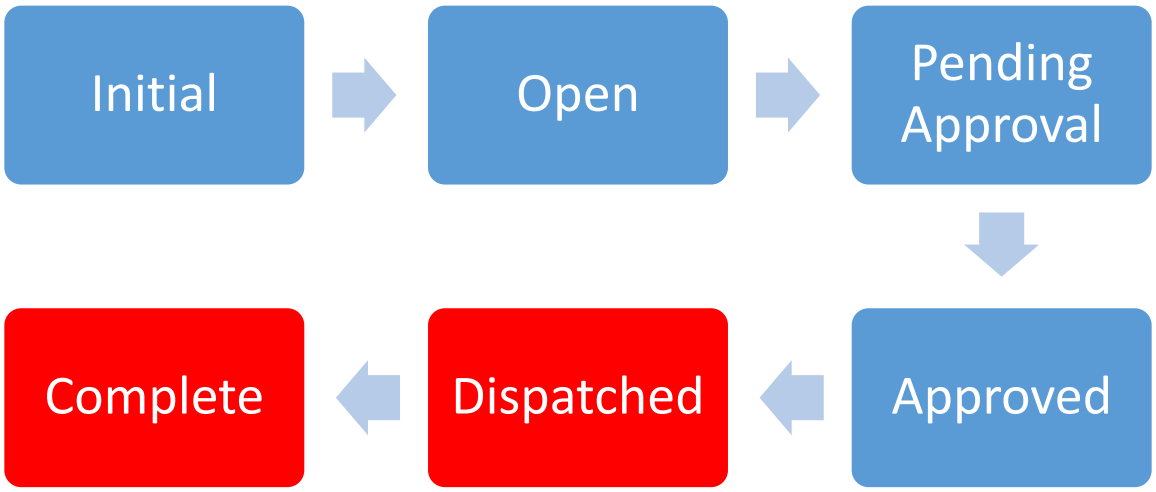
2. Two POs totaling $602,676 have been cancelled.
3. One PO, totaling $994,350, was incorrectly coded as OMP. SPD contacted the appropriate APO for additional information. Based on information shared by the state entity, this PO should have been coded as AC for state entity contract. The APO should attach any documentation which explains the procurement methodology used to select the supplier.
4. One PO, totaling $73,074, was found to be a bid violation, as the state entity confirmed that an RFQ should have been posted for this purchase.

Recommendations

1. APOs and CUPOs should review all recent POs coded as OMP with a value of $50,000 or more to determine whether the correct purchase type code has been used.
2. SPD should work with IT, State Accounting Office, and USG to implement controls on OMP POs over $24,999.99.
3. APOs/CUPOs should review PO data from this audit at the buyer level to ensure that staff is adequately trained and, where necessary, re-trained in the correct use of purchase type codes.
4. SPD should establish a strategy to analyze OMP spend to determine at what volume of POs are issued and at what level of total supplier spend if a statewide or state entity contract should be developed.
5. SPD should revise the GPM and issue guidance to state entities on the proper coding of POs, which come from a solicitation posted for a one-off purchase and were not intended to establish a term contract. Since posting on the GPR allowed the state entity to demonstrate they have satisfied the competitive bidding requirements, the resulting one-time POs with values more than $24,999.99 should include the event ID in the PO header or the PO reference field. Additionally, APOs and CUPOs should remind their procurement staff that POs should always be sourced from an event, where possible, so event IDs can easily be referenced on POs and POs to the event from which they emanate.

Appendix A
Audit Background, Scope, and Methodology

This audit is of purchase orders (POs) issued in February 2023 - PO dates between February 1, 2023, through February 28, 2023. The PO dates were current as of the date the PO queries were run, which was the first week of March. 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.