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## OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

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Inspector General  
Accredited

### **Splitting Purchases**

***Our recent audits revealed instances of government employees splitting purchases to circumvent policy requirements.***

***Public entities may be able to reduce split purchases by enhancing purchasing guidance, establishing internal controls, recognizing red flag indicators, training employees, and monitoring purchase activities.***



A split purchase is the intentional division of a purchase (splitting) into smaller purchases in order to stay within purchase limits and evade procurement requirements. Organizations establish procurement requirements through policy and procedures to define legal authority for spending within the organization; ensure fair and equitable treatment of everyone who deals with the procurement system; and protect against corruption, fraud, waste, and abuse.<sup>1</sup>

#### ***Employees may split purchases to avoid the following requirements:***

- Purchasing thresholds requiring competitive bidding or quotes.<sup>2</sup>
- Purchasing thresholds requiring upper management, purchasing department, or Council/Commission review and/or approval.
- Purchasing thresholds requiring a requisition or purchase order.
- Authorized purchasing card or credit card single-transaction or monthly spending limits.<sup>3</sup>



<sup>1</sup> The Institute of Public Procurement's Public Procurement Practice, Developing a Procurement Policy Manual (2012) [nigp.org/resource/global-best-practices/Developing a Procurement Policy Manual Best Practice.pdf](https://nigp.org/resource/global-best-practices/Developing-a-Procurement-Policy-Manual-Best-Practice.pdf)

<sup>2</sup> International Anti-Corruption Resource Center, The Most Common Procurement Fraud Schemes and their Primary Red Flags <https://iacrc.org/fraud-and-corruption/the-most-common-procurement-fraud-schemes-and-their-primary-red-flags/>

<sup>3</sup> The United States General Accounting Office, Financial Management and Assurance, Audit Guide, Auditing and Investigating the Internal Control of Government Purchase Card Programs (November 2003) <https://www.gao.gov/assets/gao-04-87g.pdf>

*"Enhancing Public Trust in Government"*



### Indicators (**Red Flags**) of Split Purchases



- Two or more similar procurements from the same supplier in amounts just under competitive bidding or upper management review and approval limits.
- Unjustified separation of purchases, e.g. separate contracts for labor and materials for the same project, each of which is below competitive bidding or upper management review and approval limits, but when combined are over such limits.
- Sequential purchase orders or invoices under upper management, purchasing department, or Council/Commission competitive bidding or review and approval limits.
- The purchase of the same or similar goods or services using a purchasing/credit card within a brief time period by an individual cardholder, and/or that total an amount that exceeds the single purchase or monthly credit limit.
- The purchase of the same or similar goods or services that total an amount that exceeds the single purchase or monthly credit limit using multiple purchasing/credit cards by cardholders within the same division or department.

### Splitting Purchases Can Lead to

- **Fraud** – Intentionally bypassing or avoiding the established authorization process to cover up schemes completed for personal gain or improper benefit, such as theft, bribes, or payments to fictitious or unauthorized vendors.
- **Misuse, Waste, or Abuse** – Excessive, unnecessary, or erroneous orders or purchases resulting in possible financial loss.
- **Penalties and/or Legal fees** – Potential exposure due to noncompliance with federal, state, or local procurement laws.

### Internal Controls

1. Update purchasing and purchasing/credit card policy guidance to: 1) expressly prohibit split purchases, 2) identify examples of split purchase violations, and 3) provide penalties for split purchase violations.
2. Provide training and guidance to all employees on what constitutes a split purchase, that splitting purchases is a violation of the purchasing and purchasing/credit card policy requirements, and why the purchasing and/or purchasing/credit card policy requirements have been established.
3. Enhance the purchasing review and oversight process to identify sequential purchase orders or invoices for the same or similar goods or services and purchases of the same or similar kind from the same vendor within a brief time period by individuals or individuals within the same division or department. Such review will ensure the purchases are processed and approved in compliance with purchasing authorization and processing requirements.
4. Hold individuals accountable that split purchases to circumvent purchasing authorization and processing requirements.

