

## 2 ORDER SPLITTING

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A government authority had purchasing guidelines which required:

- two verbal quotes for orders up to \$2,700
- three verbal or written quotes up to \$5,300
- three written quotes up to \$ 16,000
- full tendering procedures above \$ 16,000.

One of the authority's officers purchased small amounts of lighting equipment for a number of district centres, totalling around \$30,000.

All the equipment was the same brand and all was bought from the one distributor, but there were six separate transactions over a period of three months. Only two of the transactions would have required written quotes according to the guidelines, and the other four would have needed only verbal quotes. The purchasing officer said he had obtained written quotes for all six transactions, but there was no record of them, and he could not remember the names of firms he had invited to quote. When asked why he did not use full tendering procedures, he responded he had not thought the purchases would compound to the extent they did.

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The ICAC advised the authority to improve its controls in the tendering and purchasing process. A need for management action was also identified, so that possibly unacceptable purchasing practices are queried and alternative purchasing arrangements, for example period contracts, considered for items purchased frequently.

Many purchasing guidelines set a series of monetary limits which determine when verbal quotes, written quotes, or tenders are to be obtained. There is usually a lower limit below which competitive quotes are not required at all, and a direct arrangement can be made over the telephone.

Order splitting is a means whereby the full cost of a purchase is divided into a number of smaller segments designed to fall below limits where formal tendering or written quotes are required. Sometimes this is done for corrupt motives - favouritism, bribery or self-interest. Other times it is brought about by inadequate planning and a failure to consider the possible developments of projects which initially appear small.

This can result in a situation where there are a number of contracts, each based on a verbal agreement below the relevant limit, but amounting in total to a substantial contract which would have required a properly advertised tender if the full extent had been anticipated at the start. The successful contractor will undoubtedly have competitors who might not be too concerned about missing one small job, but who may be seriously aggrieved at not having the chance to bid for what turns out to be a substantial contract.

Whether deliberate or inadvertent, order splitting is unlikely to achieve good value for money.

*The only real protection against order splitting is through adequate control systems. There must be systems which identify multiple orders and orders just below the limit of normal checking, and managers who check possible anomalies on a regular basis.*