




A Procurement Technical
Assistance Center (PTAC)

A photograph of the Wisconsin State Capitol building at dusk. The building is illuminated with warm lights, and its green dome is a prominent feature. The sky is a deep blue, and trees with autumn foliage are visible in the foreground.

ACQUISITION HOUR – THE CONTRACTOR PURCHASING SYSTEM REVIEW (CPSR) SERIES

PART 2 OF 4

October 31, 2017



WEBINAR ETIQUETTE

- Please
 - When logging into go-to-meeting, enter the name that you have registered with
 - Put your phone or computer on mute
 - Use the Chat option to ask your question(s): We will read them and our guest speaker will provide an answer to the group
- Thank you!

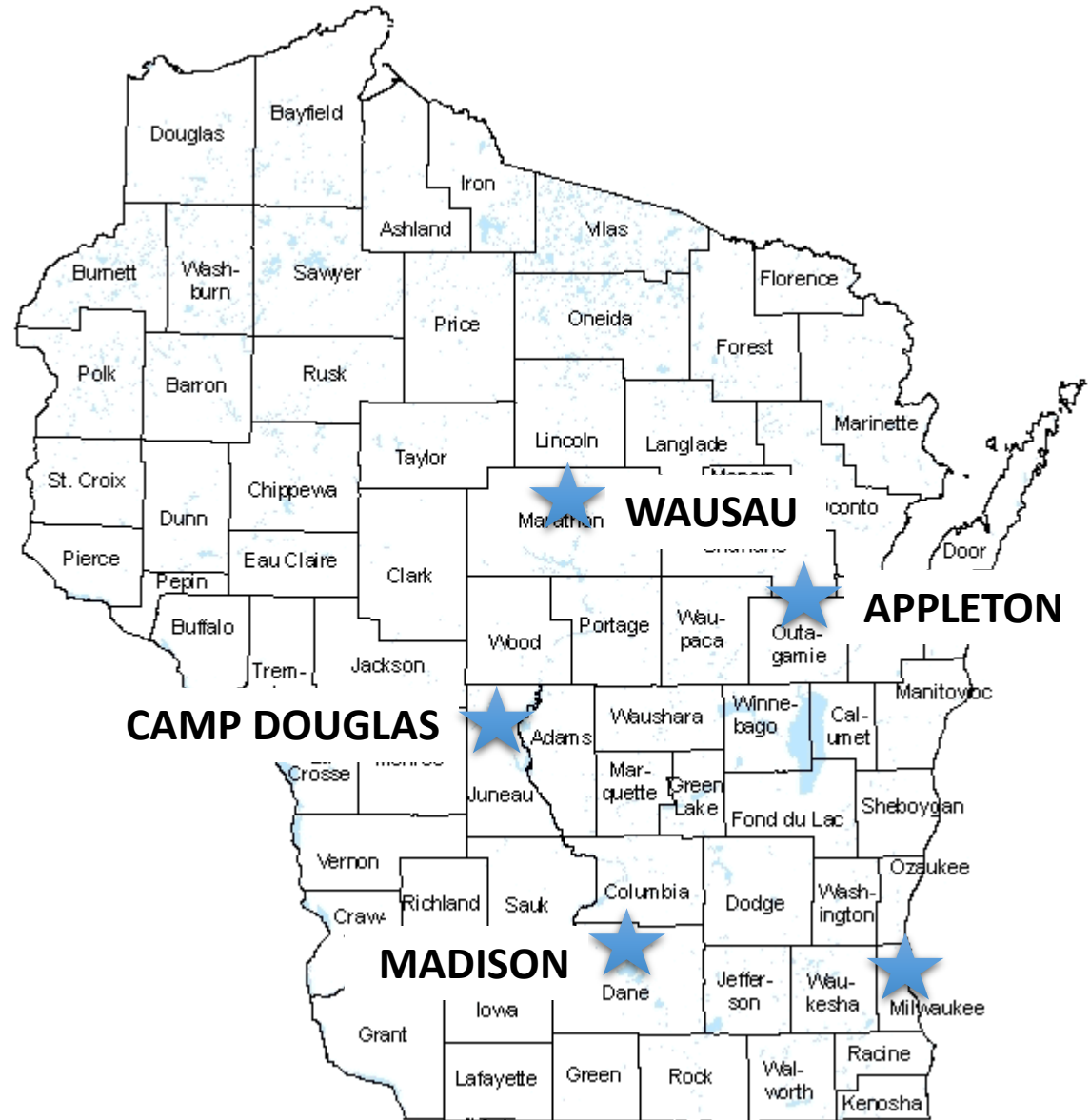
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SUPPORTING THE MISSION

Assist businesses in creating,
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revenue and jobs through Federal, state
and local government contracts.

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- MILWAUKEE – *Technology Innovation Center*
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UPCOMING EVENTS

AUGUST 16 2017

ACQUISITION HOUR: CYBER SECURITY FOR CURRENT AND PROSPECTIVE DOD CONTRACTORS AND SUBCONTRACTORS

AUGUST 17 2017

ACQUISITION HOUR - THE END OF THE FISCAL YEAR IS HERE: WHAT IS HOT AND WHAT IS NOT

SEPTEMBER 19 2017

ACQUISITION HOUR: SELLING TO THE STATE OF WISCONSIN AND LOCAL GOVERNMENTS

SEPTEMBER 20 2017

ACQUISITION HOUR: OVERVIEW OF THE FEDERAL ACQUISITION REGULATIONS (FAR)

OCTOBER 4 2017

ACQUISITION HOUR: ESRS INDIVIDUAL SUBCONTRACTOR REPORTING (ISR) BASICS

CURRENT OPPORTUNITIES (5)

SERVICES OFFERED BY WPI

- FREE Bid Matching Services
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- Locating Local, State and Federal Opportunities
- Government Market Strategy Development
- Training in use of Government websites and tools
- Assistance with System for Award Management (SAM) Registration
- Assisting in Market Research Process
- Development of Market Profile
- Small Business Subcontracting Plans Development, Outreach and Reporting
- Small Group Training
- Outreach and training with Local, State and Federal agencies
- Assist with Pre and Post Award Functions
- Assistance with Agency Specific Contracting Requirements
- Assistance with Contracting Regulations and Requirements, including FAR, DFAR, CFR
- Assistance with GSA Schedule Preparation and Administration
- Assistance with Local, State and Federal Certifications, including:
 - Service Disabled & Veteran Owned Small Business, HUBZone, Woman Owned Small Business, 8(a) Business Development Program
 - State
 - Local
 - DBE
- Bid review and Submission Assistance
- Proposal review and Submission Assistance
- Capabilities Statement and Related Government Marketing Material Development
- Assistance in Locating and Developing Teaming Partners and Subcontractors
- Updated Government Market Information

Passing a CPSR Audit Can Increase Contractor Profitability

Week 2

DFARS 252.244-7001, Contractor
Purchasing System Administration - the 24
criteria essential to pass a CPSR audit

And

Contractor Purchasing System Review
(CPSR) Guidebook, May 9, 2017

Questions from Class Participants

None

When Do the 24-criteria in DFARS 252.246-7007 apply?

- If any prime contract includes FAR 52.244-2, Subcontract, it will also include DFARS 252.244-7001, Contractor Purchasing System Administration – Basic
- If DFARS 252.246-7007, Contractor Counterfeit Electronic Part Detection and Avoidance System is included in the prime contract; but FAR 52.244-2, subcontracts, is not, the contract will include DFARS 252.244-7001, Contractor Purchasing System Administration – Alternate I

Identify the Purchasing Process and Create a Purchasing Manual

1. Contractor must have an adequate system description including policies, procedures, and purchasing practices that comply with the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS);
 - Do your policies, procedures and purchasing practices meet this criterion?
 - Do policies or manual include the required “topics” the Government considers necessary? (the topics were discussed Week 1)

Flow Down Clauses

2. Ensure that all applicable POs and subcontracts contain all flow down clauses, including terms and conditions and any other clauses needed to carry out the requirements of the prime contract.

- Does your company flow FAR and DFARS clauses to vendors? How do you determine what clauses should be flowed down?
- If 52.244-2, Subcontracts, in a prime contract identifies a prime contract specific requirement for Advance Notification or Consent to Subcontract; or, if a special inspection requirement or other unique requirement is identified, how does the buyer find out?

Clear Lines of Authority and Responsibility

- 3. Maintain an organization plan that establishes clear lines of authority and responsibility
 - Does the organization chart for the Supply Chain show the relationship of all employees to management?
 - Is electronic PR process setup so purchase order/subcontract approval is based on dollar thresholds or job title? A proper arrangement helps ensure effective management oversight and approval of PO's/subcontracts.

The Process for Buying Supplies and Services

- 4. Ensure all POs are based on authorized requisitions and include a complete and accurate history of purchase transactions to support vendor selected, price paid, and document the PO/subcontract files which are subject to Government review
 - This criterion covers a broad area
 - Buyers should only buy supplies or services upon receiving an authorized purchase requisition.
 - The PO file should document who bid, who won, how the price was determined fair and reasonable.
 - If an item was bought before, does current price make sense when compared to the previous buy?
 - Do the buyers use any type of checklist to make sure all required elements of a purchase are met and properly documented?

Vendor Selection and Price Reasonableness

- 5. Establish and maintain adequate documentation to provide a complete and accurate history of purchase transactions to support vendors selected and prices paid;
 - Sounds like criterion 4 doesn't it?
 - Shows emphasis Government places on complete documentation including
 - Vendor selection,
 - use of small business
 - Price reasonableness determination

Make-or-Buy Policy

- 6. Apply a consistent make-or-buy policy that is in the best interest of the Government;
 - Do your buyers understand Make-or-Buy and are they familiar with FAR 15.407-2
 - Does company have a make-or-buy program plan?
 - Is compliance reflected by the issuance of purchase requisitions?

Competition is Good, Buying from Debarred Bidders is Bad

- 7. Use competitive sourcing to the maximum extent practicable, and ensure debarred or suspended contractors are properly excluded from contract award;
 - Competition is always the goal. Competition may result in a 10-20% reduction in price.
 - Do buyers understand they should not do business with debarred bidders?
 - Are they familiar with FAR 52.209-6?
 - Do buyers get a disclosure from appropriate vendors for each PO >\$35,000 attesting that the vendor is not debarred? What type of purchase is exempt from this requirement?

Price, Quality, Delivery, Technical and Financial Capabilities of Competing Vendors

- 8. Evaluate price, quality, delivery, technical capabilities, and financial capabilities of competing vendors to ensure fair and reasonable prices;
 - Have you heard this before?
 - How do buyers determine that they are dealing with a responsible, responsive vendor?
 - If a “best value” award is made, does the PO file explain how the buyer evaluated non-price factors in determining the best value supplier?

Sole Source, Price Reasonableness Determinations

- 9. Require management level justification and adequate cost or price analysis, as applicable, for any sole or single source award;
 - Sole source awards are always reviewed by auditors because the price reasonableness determination requires price analysis, cost analysis or a combination of the two.
 - The PO file must explain the award determination.
 - Various approval levels at determined \$ thresholds illustrate management review and approval of a transaction exists and takes place.
 - **Immediate Homework:** Submit some examples of sole source “reasons” to me during this presentation. We will discuss them in detail during Week 3.

Price Reasonableness Again – It is very important

- 10. Perform timely and adequate cost or price analysis and technical evaluation for each subcontractor and supplier proposal or quote to ensure fair and reasonable subcontract prices;
 - Sounds a lot like Criteria 5,8, and 9.
 - It is important to document negotiation with vendors.
 - Are best value awards made?
 - Does your company have a policy or work instruction that fully explains these requirements to buyers?

PO Documentation Requirements

- 11. Document negotiations in accordance with FAR 15.406-3;
 - Short and sweet!
 - What does 15.406-3 require? When looking at this FAR reference remember it is written for a Government buyer. Phrasing of policy for a contractor may differ slightly from the FAR.

Discounts, Rebates, Freight Allowances, Volume Discounts

- 12. Seek, take, and document economically feasible purchase discounts, including cash discounts, trade discounts, quantity discounts, rebates, freight allowances, and company-wide volume discounts
 - **Immediate Homework:** Submit examples of the kinds of discounts or rebates your buyers ask for or receive from their vendors? Submit them now and we'll talk about them at the end of the training session.
 - Do the buyers document discounts or rebates in the subcontract file?

Subcontract Type Selection

- 13. Ensure proper type of contract selection and prohibit issuance of cost-plus-a-percentage-of-cost subcontracts
 - Do your buyers issue subcontracts that are not firm-fixed price? If so, do they justify their use?
 - Ever hear of a Cost-plus-percentage of cost (CPPC) type subcontract? Do you know why this type of subcontract is not allowed?

Monitoring Purchases After Award

- 14. Maintain subcontract surveillance to ensure timely delivery of an acceptable product and procedures to notify the Government of potential subcontract problems that may impact delivery, quantity, or price;
 - Do you have a written procedure for follow-up and closeout of open PO's?
 - If a supplier delivers late, how is the late delivery monitored and what action might a buyer take to improve delivery?
 - Does someone other than the buyer monitor delivery and acceptance of product from a vendor? Does manual explain who and how?

PO Modifications Must Be Justified

- 15. Document and justify reasons for subcontract changes that affect cost or price;
 - Good old common sense. If a PO is modified, the price resulting from the subcontract change should be justified?
 - Does the buyer justify price reasonableness for subcontract modifications that affect price?

Are Company Terms & Conditions Accurate and Complete?

- 16. Notify the Government of the award of all subcontracts that contain the FAR and DFARS flow down clauses that allow for Government audit of those subcontracts, and ensure the performance of audits of those subcontracts
 - Wording is very confusing; but what recent audits seem to indicate about its meaning is simply – does your company flow the required clauses to vendors.
 - Does your company recognize what it means to flow the required clause to vendors? How is this determined in your company and who does it?

Ethics and Standards of Conduct

- 17. Enforce adequate policies on conflict of interest, gifts, and gratuities, including the requirements of 41 U.S.C. Chapter 87, Kickbacks
 - **Homework:** Review FAR Part 3 – Improper Business Practices and Personal Conflicts of Interest.
 - Does your company have an ethics officer? Does this person train the buyers so they know what, if anything, a buyer can accept from a vendor?
 - Does your company have a code of business ethics and conduct? Is it followed?

Internal Audits and Management Review of Supply Chain

- 18. Perform internal audits or management reviews, training, and maintain policies and procedures for the purchasing department to ensure the integrity of the purchasing system;
 - Does a buyer training program exist?
 - Does your company perform internal audits to validate that purchasing policies and procedures are being followed?
 - Are buyers receiving training about various topics such as executive compensation.
 - Is a buyer training log being maintained?

Currency of Policies and Counterfeit Parts Policy

- 19. Establish and maintain policies and procedures to ensure POs and subcontracts contain mandatory and applicable flow down clauses, as required by the FAR and DFARS, including terms and conditions required by the prime contract and any clauses required to carry out the requirements of the prime contract, including the requirements of DFARS 252.246-7007, Contractor Counterfeit Electronic Part Detection and Avoidance System, if applicable
 - Review the T&C's your company flows to vendors.
 - Are buyers aware of the thresholds for each clause?
 - Does company have a counterfeit part detection program?

Organization of Supply Chain within Company

- 20. Provide for an organizational and administrative structure that ensures effective and efficient procurement of required quality materials and parts at the best value from responsible and reliable sources, including the requirements of DFARS 252.246-7007, Contractor Counterfeit Electronic Part Detection and Avoidance System, if applicable;
 - **Comment:** The purchasing department should be set up organizationally to support the requirements of the company. The various purchasing procedures and work instructions should provide the framework for buying supplies and services that meet technical requirements from suppliers that are both responsible and responsive. By working within this framework, your company should be buying at the best value (price + non-price factors).

24 Criteria - continued

- 21. Establish and maintain selection processes to ensure the most responsive and responsible sources for furnishing required quality parts and materials and to promote competitive sourcing among dependable suppliers so that purchases are reasonably priced and from sources that meet contractor quality requirements, including the requirements of DFARS 252.246-7007, Contractor Counterfeit Electronic Part Detection and Avoidance System, and the item marking requirements of DFARS 252.211-7003, Item Unique Identification and Valuation, if applicable;
 - These criteria are starting to sound similar. It just shows the emphasis of the Government. Buy only from responsible (possessing necessary financial resources and technical capability) and responsive (offer meets the requirements of the solicitation) sources, pay a reasonable price; and make sure applicable flow down clauses are part of the transaction.

Policies Buyers Follow to Ensure Price Reasonableness of Purchases

- 22. Establish and maintain procedures to ensure performance of adequate price or cost analysis on purchasing actions;
 - Are you getting the idea that determining prices fair and reasonable is important? It is! Every dollar a Buyer saves your company is a dollar added to the bottom line.
 - What resources exist in your company to help Buyers determine prices fair and reasonable?

Types of Subcontracts

- 23. Establish and maintain procedures to ensure that proper types of subcontracts are selected, and that there are controls over subcontracting, including oversight and surveillance of subcontracted effort;
 - Review FAR Part 16 – Types of Contracts. It provides a good overview of the use of FFP type subcontracts and cost reimbursement (CR) type subcontracts.
 - If a buyer feels a requirement is better suited to a CR type subcontract, what is the process within your company to justify that determination? Is the policy being followed?

Limitations-on-Pass-Through Charges

- 24. Establish and maintain procedures to timely notify the Contracting Officer, in writing, if:
 - a. The Contractor changes the amount of subcontract effort after award such that it exceeds 70 percent of the total cost of the work to be performed under the contract, task order, or delivery order. The notification shall identify the revised cost of the subcontract effort and shall include verification that the Contractor will provide added value; or
 - b. Any subcontractor changes the amount of lower-tier subcontractor effort after award such that it exceeds 70 percent of the total cost of the work to be performed under its subcontract. The notification shall identify the revised cost of the subcontract effort and shall include verification that the subcontractor will provide added value as related to the work to be performed by the lower-tier subcontractor(s).
 - If such circumstances occur, does the buyer have a way of knowing about it; and, how is the contracting officer notified?

Contractor Purchasing System Review (CPSR) Guidebook, May 9, 2017

- This guidebook provides guidance to Government personnel performing CPSR audits.
- It provides “definitions” of important terms like “subcontract” and “sole source”
- It identifies the “types” of CPSR audits
- It explains the requirements to be included in the CPSR Report following a CPSR audit
- It identifies the “major purchasing areas” that will be reviewed during an audit.
- 29 appendixes – each one should be a training class for your buyers – **STUDY THEM**

What is Next?

- Week Three – November 7, 2017 - Source Selection and Price Reasonableness Determinations
- **HELP NEEDED** – send me examples of sole source reasons that your company uses. Such as, “Government approved part”, “proprietary to a vendor”, “only known source”, etc.
- Week Four - November 14, 2017
 - Required Clause Flow Down and Executive Order Compliance
 - Example of Findings from a CPSR audit

Questions? Comments?

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ACQUISITION HOUR LIVE WEBINAR SERIES

- November 1, 2017 – **Flow-down Clauses – Management and Responsibilities for Federal Contractors** – [CLICK HERE](#) for additional information – presented by Carol Murphy – Wisconsin Procurement Institute (WPI)
- November 7, 2017 – **The Contractor Purchasing System Review (CPSR) Series part 3 of 4** – [CLICK HERE](#) for additional information – presented by Phil Bail, Phil Bail and Associates
- November 8, 2017 – **Cyber Security for Current and Prospective DOD Contractors and Subcontractors** – [CLICK HERE](#) for additional information – presented by Marc Violante – Wisconsin Procurement Institute (WPI)
- November 14, 2017 – **The Contractor Purchasing System Review (CPSR) Series part 4 of 4** – [CLICK HERE](#) for additional information – presented by Phil Bail, Phil Bail and Associates
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- November 28, 2017 – **The HUBZone Program – Certification Benefits and New Regulations** – [CLICK HERE](#) for additional information – presented by Shane Mahaffy, Lead Business Opportunity Specialist, US.Small Business Administration (SBA)
- **November 29, 2017 – Cybersecurity and Technology** – [CLICK HERE](#) for additional information – presented by George Chavez
- November 29, 2017 – **Overview of CPARS** – [CLICK HERE](#) for additional information – presented by Carol Murphy, Wisconsin Procurement Institute (WPI)
- December 5, 2017 – **The SBA 8(a) certification program** – [CLICK HERE](#) for additional information – presented by Shane Mahaffy, Lead Business Opportunity Specialist, US.Small Business Administration (SBA)
- December 6, 2017 – **Cyber Security for Current and Prospective DOD Contractors and Subcontractors** – [CLICK HERE](#) for additional information – presented by Marc Violante – Wisconsin Procurement Institute (WPI)

MARKETPLACE 2017

Save the date: December 13 – 14

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QUESTIONS?

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CPE Certificate available, please contact:

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