

Contractor Purchasing
System Review (CPSR) Guidebook
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Outline

- What is the Contractor Purchasing System Review (CPCM) Guidebook?
- What are guidebook takeaways for contractors?

What is the Contractor Purchasing System Review (CPCM) Guidebook?

- This guidebook provides guidance and procedures that Government personnel performing a CPSR audit should follow
- This guidebook
 - Reiterates the types of CPSR audits
 - Provides an explanation about what the 24 criteria in DFARS 252.244-7001 entail and require of contractors
 - Identifies the “major audit areas of concern” that auditors will examine

The types of CPSR audits

- Initial/Comprehensive Review
- Special Review
- Follow-Up Review

Initial/Comprehensive Review

- Initial - First time a Government audit of the contractor's purchasing system has occurred
- Comprehensive – Performed on contractor's with an approved purchasing system every 3-years based on a risk analysis by the ACO
- Both the initial and comprehensive review look at the same 24 criteria to determine adequacy of a contractor's purchasing system.

The 24 criteria in DFARS 252.244-7001

- Examine this clause at subparagraph (c) thoroughly. These criteria must be met in order to pass a CPSR Audit.
- These criteria will be discussed in great detail during the Four-Part Crash Course for Successfully Passing a CPSR Audit that begins on January 24, 2017.
- Week One - January 24, 2017 -Introduction to the major aspects of a CPSR including discussion about required policies and procedures
- **Week Two** - February 14, 2017 - DFARS [252.244-7001, Contractor Purchasing System Administration - discussion of the 24 criteria essential to pass a CPSR audit](#)
- Week Three - February 21, 2017 - Source Selection and Price Reasonableness Determinations
- Week Four - February 28, 2017 - Required Clause Flow Down and Executive Order Compliance

The 24 criteria (at a minimum, these criteria must be met for a purchasing system to be determined adequate by the Government)

- 1. 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);
- 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;
- 3. Maintain an organization plan that establishes clear lines of authority and responsibility
- 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

24 Criteria - continued

- 5. Establish and maintain adequate documentation to provide a complete and accurate history of purchase transactions to support vendors selected and prices paid;
- 6. Apply a consistent make-or-buy policy that is in the best interest of the Government;
- 7. Use competitive sourcing to the maximum extent practicable, and ensure debarred or suspended contractors are properly excluded from contract award;
- 8. Evaluate price, quality, delivery, technical capabilities, and financial capabilities of competing vendors to ensure fair and reasonable prices;

24 Criteria - continued

- 9. Require management level justification and adequate cost or price analysis, as applicable, for any sole or single source award;
- 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;
- 11. Document negotiations in accordance with FAR 15.406-3;
- 12. Seek, take, and document economically feasible purchase discounts, including cash discounts, trade discounts, quantity discounts, rebates, freight allowances, and company-wide volume discounts

24 Criteria - continued

- 13. Ensure proper type of contract selection and prohibit issuance of cost-plus-a-percentage-of-cost subcontracts
- 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;
- 15. Document and justify reasons for subcontract changes that affect cost or price;
- 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

24 Criteria - continued

- 17. Enforce adequate policies on conflict of interest, gifts, and gratuities, including the requirements of 41 U.S.C. Chapter 87, Kickbacks
- 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;
- 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

24 Criteria - continued

- 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;
- 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;

24 Criteria - continued

- 22. Establish and maintain procedures to ensure performance of adequate price or cost analysis on purchasing actions;
- 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; and
- 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

24 Criteria - continued

- 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).

Special Review

- An investigation of specific weaknesses identified in any contractor's purchasing system, using the same techniques followed in performing an initial or comprehensive review. The CO, or the PA with the concurrence of the CO, may initiate a special review of any contractor's purchasing system in connection with weaknesses revealed as a result of
 - The initial or comprehensive review, or continuing in-depth surveillance
 - The review of subcontracts submitted under the notification and consent to subcontract requirement of contract clauses
 - Major changes in the contractor's purchasing policies, procedures, or key personnel
 - Major changes in the contractor's purchasing policies, procedures, or key personnel
 - Award of a high dollar value contract to a vendor that has had no review of their system

Follow-Up Review

- A Follow-up review is performed when a contractor's purchasing system is disapproved by the CO.
- The purpose of the Follow-up review is to determine whether a contractor has effectively implemented a Corrective Action Plan (CAP) deemed adequate by the CO and corrected the deficiencies revealed by any purchasing system review.
- The same techniques used during an Initial or Comprehensive review are employed in the Follow-up review.

Follow-Up Review - Continued

- Follow-up review shall be made as soon as:
 - Notification has been received from the contractor that all deficiencies have been corrected. The notification shall consist of a letter from the contractor giving the date of completion of the CAP, and
 - Sufficient time has passed to provide a suitable sample to be reviewed. Sufficient time is approximately 90 days after all elements of the CAP have been implemented.
 - NOTE: A Follow-up review is confined to the areas found deficient in the previous CPSR. (18 Month Rule applies)

The major audit areas of concern

- Policy and Procedure Manual
- Truthful Cost or Pricing Data, Truth in Negotiations Act (TINA)
- Cost Accounting Standards (CAS);
- Prior Consent and Advance Notification
- Small Business Subcontracting Plans
- Protecting the Government's Interest when Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment
- Limitation on Use of Appropriated Funds to Influence Certain Federal Transactions Certification (Anti-lobbying);

The major audit areas of concern

- Defense Priorities and Allocation System (DPAS) Rating
- Federal Funding Accountability and Transparency Act of 2006
- Counterfeit Parts Mitigation and Surveillance
- Price Analysis
- Competition in Subcontracting
- Sole Source Selection Justification
- Negotiations;
- Best Value;
- Make-or-Buy Program
- Limitation on Pass-through Charges

The major audit areas of concern

- Internal Purchasing Organization
- Documentation;
- Training;
- Internal Review/Self Audit
- Mandatory FAR and DFARS Flow Down Requirements/Terms and Conditions;
- Purchase Requisition Process;
- Commercial Item Determination
- Subcontract Types;
- Interdepartmental Relations;
- Procurement Authority
- Restrictions on the Acquisition of Specialty metals/Articles containing Specialty Me

The major audit areas of concern

- Supply Chain Management Process
- Subcontractor/Vendor Closeout Process;
- Long Term Purchasing Arrangements
- Handling Change Orders and Modifications
- Intra/Inter-Company, Affiliate, or Subsidiary Transactions
- Procurements at or Below the Simplified Acquisition Threshold ;

Questions? Comments?

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