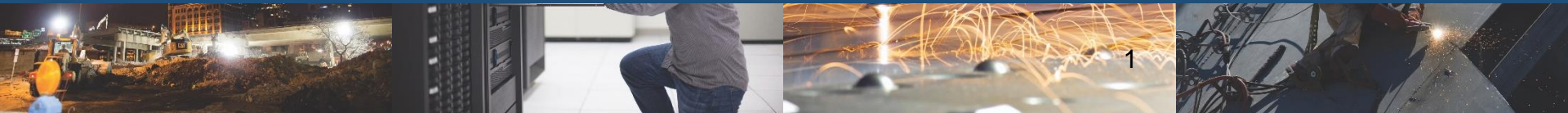


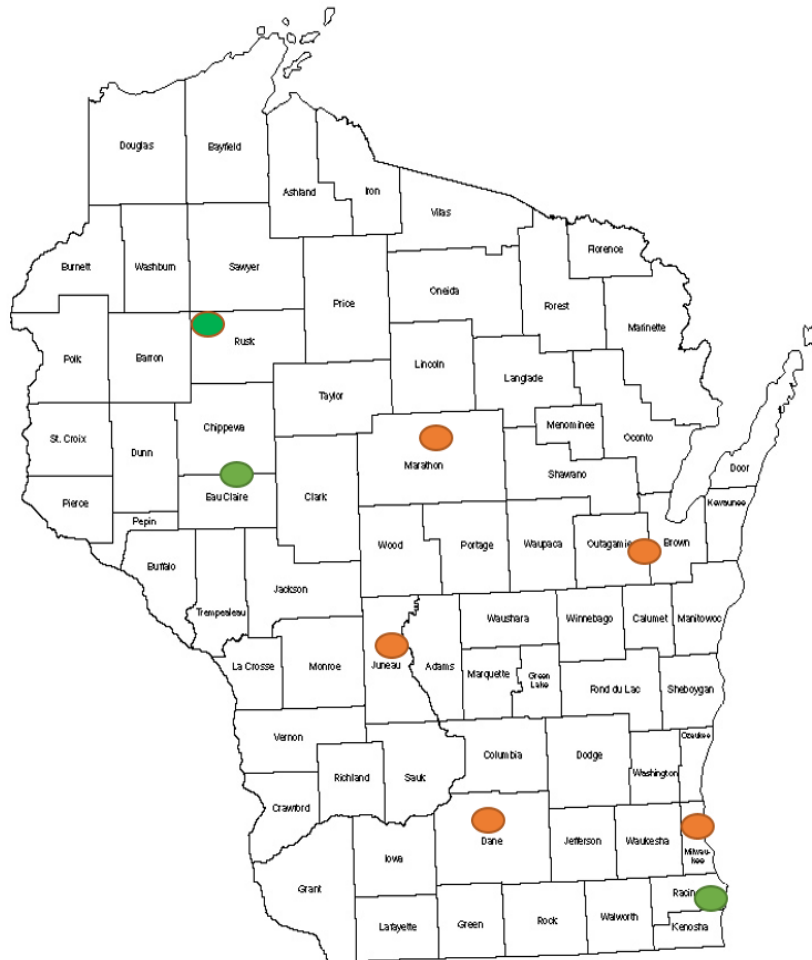


A Procurement Technical  
Assistance Center (PTAC)



# ACQUISITION HOUR – THE CONTRACTOR PURCHASING SYSTEM REVIEW SERIES PART 2 OF 4 February 14, 2017





## LOCATIONS:

- **Primary office – Milwaukee** - Technology Innovation Center
- **Staffed Satellite offices**
  - Madison** (FEED – Food Enterprise & Economic Development / MEC – Madison Enterprise Center)
  - Camp Douglas** (Juneau County Economic Development Corporation)
  - Wausau** (Wausau Region Chamber of Commerce)
  - Appleton** (Fox Valley Technical College)
- **Active Partnerships**
  - Racine** – LaunchBox
  - Eau Claire** - Western Dairyland
  - Ladysmith** – Indianhead Community Action

## MY ACCOUNT

Hello benjaminb (not benjamin? [Sign out](#)).

FROM OUR EXECUTIVE DIRECTOR

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EVENT PRESENTATIONS

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NEWSLETTER ARCHIVE

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CURRENT OPPORTUNITIES

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### Current Opportunities [View All](#)

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#### 1. [SBA Seeks Funding Proposals from Non-Profits and Local Institutions to Provide Entrepreneurship Training for Service Members, Military Spouses and Veterans - January 18, 2017](#)

WASHINGTON – The U.S. Small Business Administration (SBA) is inviting funding proposals from non-profit organizations, state, local and tribal government agencies, and institutions of higher learning to provide “Boots to Business” entrepreneurship training to service members, military spouses, and veterans.

#### 2. [Chicago Secures \\$1 Billion in Federal Grant Funding for Rail Upgrades - January 10, 2017](#)

Chicago’s Transit Authority will receive nearly \$1.1 billion in federal grant funding to help pay for upgrades meant to expand rail capacity on the north side of the city, officials said Monday.

The money will go toward roughly \$2.1 billion of planned work on the city’s Red and Purple “L” lines. This will include improvements to track, stations, power and signal systems, and the purchase of 32 new railcars, according to the Federal Transit Administration.

#### 3. [Secure That Smart Toaster and Win \\$3,000- January 4, 2017](#)

The Federal Trade Commission is offering up to \$25,000 in prize money for applications or tools that help people protect their smart home devices from hackers, according to a Federal Register notice.

The competition, which will announce winners in July, comes as the internet is creeping into more and more household devices ranging from baby monitors to toasters.

These internet-of-things devices are often less secure than traditional internet-connected devices such as laptops and smartphones. It’s also often more difficult to update the software in these devices to patch vulnerabilities, making

# Four-Part Crash Course for Successfully Passing a CPSR Audit

## Part 2

When is a CPSR Usually Required –  
Question from Week 1

and

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

February 14, 2017  
WPI Webinar

# Important Notice

Today is Valentines Day

# Overview of the Sessions

- 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 – Overview about when and why a contractor might be scheduled for a CPSR audit; and 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

## Part 1 - When is a Contractor Purchasing System Review (CPCM) Audit likely?

- Reference: FAR 44.3, Contractors' Purchasing Systems Reviews
- ACO determination – can be based on past performance of the contractor, volume, complexity or dollar value of subcontracts.
- Are sales to Government, excluding competitively awarded FFP contracts and sales of commercial items expected to exceed \$25 million during the next 12 months? NOTE: Sales include prime contracts, subcontracts under Government prime contracts, and modifications. The \$25 million threshold can be increased or decreased if ACO considers it to be in Government's best interest.
- Another audit every 3 years once initial determination has been made.

## Part 2 – Discussion of the 24-criteria that must be met for the Government to determine a purchasing system is “acceptable”.

- 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 award 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 setup 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?

# What is Next?

- **Week Three** - February 21, 2017 - Source Selection and Price Reasonableness Determinations
- Week Four - February 28, 2017 - Required Clause Flow Down and Executive Order Compliance

# Questions? Comments?

**Phil Bail & Associates  
A Veteran-Owned Small Business**

**philbail.com  
phil@philbail.com  
262.573.3396**



**Follow me on Twitter @philbail.**

# Upcoming WPI Events – Acquisition Hour Webinars

- February 21, 2017 – [Acquisition Hour – The Contractor Purchasing System Review Series part 3 of 4](#) - Presented by Phil Bail, Phil Bail & Associates
- February 28, 2017 – [Acquisition Hour – The Contractor Purchasing System Review Series part 4 of 4](#) - Presented by Phil Bail, Phil Bail & Associates
- March 1, 2017 – [Acquisition Hour – Market Research – Using the Federal Procurement Data Systems \(FPDS\)](#) – Presented by Wisconsin Procurement Institute
- March 7, 2017 – [Acquisition Hour – Update in the Hour Wage Labor Law](#) – Presented by U.S Department of Labor

# Other Upcoming WPI Events

- [WHAT IT TAKES TO WIN – SELLING TO STATE AND LOCAL GOVERNMENTS](#) – February, 15, 2017 – Milwaukee
- [GROWING NEW CUSTOMERS WITH GOVERNMENT CONTRACTING – THE FEDERAL SMALL BUSINESS HUBZONE PROGRAM](#) – February, 28, 2017 – Milwaukee
- [GROWING NEW CUSTOMERS WITH GOVERNMENT CONTRACTING – THE FEDERAL SMALL BUSINESS HUBZONE PROGRAM](#) – March, 1, 2017 – Madison
- [WHAT IT TAKES TO WIN – WRITING AN EFFECTIVE PROPOSAL](#) – April 6, 2017 - Milwaukee

# Federal Acquisition Regulations (FAR)

- A series of webinars on Wednesdays from 6.00pm to 7.00pm from Feb 15<sup>th</sup> to May 31<sup>st</sup>
  - This introductory session of the FAR REVIEW series is geared towards those interested in becoming CFCM certified. Sessions of this FAR REVIEW series will cover all parts of the FAR and will be beneficial to current Federal contractors and subcontractors even if not intending to participate in the NCMA certification exam.
- Schedule listed below:
  - <https://www.wispro.org/wp-content/uploads/2017/02/FAR-Training-Webinar-Schedule.pdf>



# QUESTIONS?

# Continuing Professional Education



CPE Certificate available, please contact:

**Benjamin Blanc**

[benjaminb@wispro.org](mailto:benjaminb@wispro.org)

# SURVEY



Today's Presentation was done  
by

Phil Bail

Bail and Associates

For additional assistance, please contact Phil at  
(262) 573-3396

<http://philbail.com/>

# For Assistance or Additional Information contact

Wisconsin Procurement Institute (WPI)  
Benjamin Blanc

10437 Innovation Drive, Suite 320  
Milwaukee, WI 53226  
414-270-3600 or  
[benjaminb@wispro.org](mailto:benjaminb@wispro.org)