



Preparing for a CPSR Audit

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What is your experience with CPSR's?

- I have no real idea what a CPSR audit is.
- My company has a government approved purchasing system.
- My company is scheduled for an initial CPSR audit.
- My company is scheduled for a follow-up CPSR audit.

“Contractor Purchasing System Review” (CPSR)

1. What is a CPSR Audit?
2. Could my purchasing department be audited?
3. How Do I get Ready for such an audit?
4. Resources

What is a CPSR Audit

What Is a CPSR Audit?

- A review of the way your company buy supplies and services in support of government contract (s).
 - Are you using small businesses to the maximum extent possible?
 - Are you justifying single or sole source purchases?
 - Are you flowing to your suppliers applicable Public Laws and government flow down clauses?
 - Are you documenting the rationale for determining prices fair and reasonable?
 - Does your Purchasing Manual or policies and procedures include explanations of the 60-some topics the government considers required?

Could My Purchasing Department Be Audited by the Government?

Could My Purchasing Department Be Audited By the Government?

- Administrative Contracting Officer (ACO) determines the need for a CPSR.
- Decision is based on the following:
 - Were sales to government in last fiscal year >\$25 million excluding competitive FFP awards and commercial item awards?
 - Has company past performance gotten worse?
 - Has contract complexity increased?
 - Has \$ value of contracts increased?
 - Has number of contracts or P/N volume increased?
 - Was last CPSR more than 3 years ago?

How Can I Get Ready for Such an Audit?

How Can I Get Ready for such an Audit?

- Read FAR Subpart 44.3, Contractors' Purchasing Systems Reviews
- Review DODFARS 252.244-7001, Contractor Purchasing System Administration
- Examine the most current Contract Purchasing System Review (CPSR) Guidebook
- Become familiar with the topics expected to be part of your Purchasing Manual

Review DODFARS 252.244-7001, Contractor Purchasing System Administration

The Contractor's purchasing system shall

- (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 purchase orders and subcontracts contain all flowdown 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 purchase orders are based on authorized requisitions and include a complete and accurate history of purchase transactions to support vendor selected, price paid, and document the subcontract/purchase order files which are subject to Government review;
- (5) Establish and maintain adequate documentation to provide a complete and accurate history of purchase transactions to support vendors selected and prices paid;

The Contractor's purchasing system shall

- (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;
- (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;

The Contractor's purchasing system shall

- (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 flowdown clauses that allow for Government audit of those subcontracts, and ensure the performance of audits of those subcontracts;
- (17) Enforce adequate policies on conflict of interest, gifts, and gratuities, including the requirements of 41 U.S.C. chapter 87, Kickbacks;

The Contractor's purchasing system shall

- (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 purchase orders and subcontracts contain mandatory and applicable flowdown 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;
- (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;
- (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;

The Contractor's purchasing system shall

- (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) *“Excessive Pass-Through”* **NOTE:** refer to FAR 52.215-22 and -23 - Establish and maintain procedures to timely notify the Contracting Officer, in writing, if—
 - (i) 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
 - (ii) 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).

Resources

- Go to: www.philbail.com, click on “Resources” to read my article about CPSRs and also to see the list of topics the government considers necessary in a contractor’s Purchasing Manual
- Google “Contractor Purchasing System Review (CPSR) Guidebook, look for August 8, 2014 version
- Model your purchasing department on the 24 criteria in DODFARS 252.244-7001, Contractor Purchasing System Administration

Follow-Up

- Contact Phil Bail & Associates for a cost effective unbiased review of your purchasing system.
 - www.philbail.com
 - 262.573.3396
 - phil@philbail.com

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Questions?