

# The Contractor Purchasing System Review (CPSR) - What You Should Know

A GovCon's guide to the elements of a purchasing system and everything they should know for a successful CPSR.



## PURCHASING SYSTEMS

An adequate contractor purchasing system (CPSR) is one designed to ensure that purchases are made at fair and reasonable prices and in compliance with the applicable contract terms, regulations and public laws. The first thing a contractor needs to understand about contractor purchasing systems is what constitutes a purchasing system. Many contractors think a purchasing system is something that can be purchased off the shelf and installed, like a mechanical system. However, as depicted in the figure below, a purchasing system is an amalgamation of people, processes, and tools that must work together to achieve the goal of spending taxpayer dollars wisely.

In this white paper, we'll review the benefits accruing to contractors that maintain compliant purchasing systems, when and how the government conducts a contractor purchasing system review (CPSR), and steps contractors can take to prepare for and pass a CPSR.



## ADVANTAGES OF A COMPLIANT PURCHASING SYSTEM

Maintaining an approved purchasing system (i.e. one that has passed a CPSR) benefits the contractor for many reasons, including:

- It may fulfill a contractual requirement. All Department of Defense cost plus or time and material (T&M) contracts will contain a clause (252.244.7001) that requires the contractor to maintain a compliant purchasing system. If the contractor is subject to the Cost Accounting Standards, the clause allows the government to withhold up to 5% of the payments if the contractor fails to maintain an adequate purchasing system.
- Some solicitations require the bidders to have an approved purchasing system. Others, such as the recent General Services Administration (GSA) Governmentwide Acquisition Contract (GWAC) solicitations, offer bonus evaluation points for contractors that have an approved purchasing system.
- Providing advance notification and obtaining the contracting officer's consent to enter into a subcontract is generally not required when the contractor has an approved purchasing system. Not only does this eliminate some bureaucratic paperwork, it also significantly reduces a contractor's risk. If the contractor was required to provide advance notification and obtain consent for a subcontract and did not—or cannot prove that they did—the government can disallow all costs for that subcontract.

## WHY, WHEN, AND HOW ARE CPSRS PERFORMED?

The objective of a contractor purchasing system review (CPSR) is to evaluate the efficiency and effectiveness with which the contractor spends government funds and complies with government policy when subcontracting. The review gives the Administrative Contracting Officer (ACO) a basis for granting, withholding, or withdrawing approval of the contractor's purchasing system.

Though contractors will benefit from passing a CPSR, they cannot initiate one. Rather, once a contractor's sales to the government—excluding competitively awarded firm-fixed-price and fixed-price with economic price adjustment contracts and sales of commercial items pursuant to FAR Part 12—are expected to exceed \$50 million in the next 12 months, the ACO is required to conduct a risk assessment. The ACO will review the contractor's past performance and the volume, dollar value, and complexity of their purchasing to determine if the risk of ineffective or inefficient purchasing justifies the costs and effort required to perform a CPSR.

Though the ACO is solely responsible for initiating a CPSR, it is possible other government organizations can determine the risk justifies the effort and ask the ACO to schedule a CPSR.

A CPSR, as contemplated by FAR Subpart 44.3 and DFARS Subpart 244.3, will be conducted by the Defense Contract Management Agency (DCMA)

in accordance with the CPSR Guidebook. All CPSRs, except a follow-up review, are predicated on a risk assessment. Take the time to understand what DCMA will be looking for in your purchasing system and carefully review the DCMA CPSR Policies and Procedure Checklist. There are 24 DFARS criteria that must be met and at least 65 items on the DCMA checklist.

#### **CPSR References:**

- **DFARS 252.244-7001, Contractor Purchasing System Administration**
- **DCMA CPSR Policies and Procedures Checklist**
- **DCMA CPSR Guidebook**

#### **RISK ASSESSMENT FORM**

The ACO will conduct the risk assessment utilizing the CPSR risk assessment form. Some of the information that will be requested is company information, last CPSR date and recommendations, sales data, contract type mix, sales to the government as a percent of total sales, number of POs/subcontracts by dollar values for the most recent year, type of business, and if you have been suspended from doing business in the past three years. The ACO will submit your completed risk assessment form to the CPSR Team to determine if the CPSR Review will be scheduled. If you have reached or are about to reach the \$50 million threshold, it is time for you to make sure your purchasing system operating in a manner that can pass a CPSR.

**Don't wait until the ACO calls. Start preparing today.**

#### **POLICIES AND PROCEDURES ARE A BIG PART OF THE CPSR**

Having and adhering to policies and procedures is the largest part of this review. So, making sure your documentation is in order, up-to-date, followed, and monitored is critical. Below are some basic, overarching guidelines for your purchasing policies and procedures:

- Establish clear lines of authority and responsibility
- Ensure that all purchases are based on authorized requisitions and include documented support for vendor selected, price paid, and files, which are subject to government review
- Implement internal audits or reviews, training, and policies for the purchasing department to ensure the integrity of the system
- Include a system description detailing policies, procedures, and purchasing practices that comply with the requirements of the FAR and DFARS
- Install a sound organizational and administrative structure to ensure effective and efficient procurement of requirements at the best value from responsible and reliable sources
- Establish a role-based training program for all who participate in the purchasing process

**TIP: Establish a self-audit program and document the results. DCMA will see this as a very favorable activity.**

## SUMMARY CRITERION - DFARS 252.244-7001(A)

The Business Systems Rule sets forth 24 system criteria that must be present in all contractor purchasing systems for a purchasing system to be “acceptable.” The criteria are outlined in DFAR 252.244-7001(a). Below, the criteria is grouped into summary activities with the applicable criterion.

### Procurement Planning/Market Research (2 Criteria)

- Apply a consistent make-or-buy policy that is in the best interest of the government
- Ensure proper type of contract selection and prohibit issuance of cost plus a percentage of cost subcontracts

### Conflict of Interest/Misconduct (1 Criterion)

- Enforce adequate policies on conflict of interest, gifts, and gratuities, including the requirements of the Anti-Kickback Act

### Competition (2 Criteria)

- Use competitive sourcing to the maximum extent practicable, and ensure debarred or suspended contractors are properly excluded from contract award
- Require management level justification and adequate cost or price analysis, as applicable, for any sole or single source award

### Negotiated Procurement (1 Criterion)

- Document negotiations in accordance with the FAR requirements for negotiation memoranda

### Cost of Pricing Data and Price Reasonableness (5 Criteria)

- Evaluate price, quality, delivery, and technical, and financial capabilities of competing vendors to ensure fair and reasonable prices
- Perform cost or price analysis and technical

evaluation for each proposal or quote to ensure fair and reasonable subcontract prices

- Document negotiations in accordance with FAR 15.406-3
- Take discounts, including cash discounts, trade discounts, quantity discounts, rebates, freight allowances, and company-wide volume discounts
- Establish and maintain procedures to ensure performance of adequate price or cost analysis on purchasing actions

### Source Selection (3 Criteria)

- Use competitive sourcing to the maximum extent practicable, and ensure debarred or suspended contractors are properly excluded from contract award
- Evaluate price, quality, delivery, technical capabilities, and financial capabilities of competing vendors to ensure fair and reasonable prices
- Establish and maintain selection processes to ensure the most responsive and responsible sources and to promote competitive sourcing so that purchases are reasonably priced and from sources that meet quality requirements

### Contract Formation and Content (3 Criteria)

- Ensure purchase orders 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
- Notify the government of the award of all subcontracts that contain flow-down clauses that allow for government audit of subcontracts, and ensure the performance of audits of those subcontracts
- Ensure purchase orders and subcontracts contain mandatory and applicable flow-down clauses, as required by the FAR and DFARS

### Foreign Purchasing and Performance (3 Criteria)

- Ensure compliance with all relevant domestic preference requirements
- Ensure compliance with export control regulations
- Ensure agreements are not executed with prohibited parties

### Procurement Administration (4 Criteria)

- Maintain subcontract surveillance to ensure timely delivery and procedures to notify the government of potential subcontract problems that may impact delivery, quantity, or price
- Document and justify reasons for subcontract changes that affect cost or price
- Ensure that proper types of subcontracts are selected, and that there are controls over subcontracting, including oversight and surveillance of subcontracted effort
- Establish and maintain procedures to timely notify the contracting officer, in writing, of excessive pass-through concerns

**Remember to also look closely at the DCMA checklist, which contains 45 items.**

### POINTERS FOR A SUCCESSFUL REVIEW

The process kicks off with the risk assessment and a series of detailed data questionnaires. Make sure your data is correct and that YOU understand what the information means so you can easily answer the reviewer's questions. Answer clearly and timely so that

the reviewer can understand the answer. Contractors that don't have CPSR experience in-house may find it beneficial to engage a consultant to help prepare for the CPSR.

**TIP: Set up your purchasing system with ease of reporting in mind!**

### Tips to Prepare for the Purchasing Review

- Prepare a strategic plan for compliance
- Prepare yourself with policies, procedures, and tools
- Self-audit plan executed and documented
- Understand the purpose of the purchasing review
- Study the guidebook and all references that DCMA provides
- Have at least one member of the executive team and ALL other participants at the entrance meeting
- Choose a point of contact to be a liaison with the CPSR team
- Keep a copy of all questions and answer documented
- At the exit meeting, make sure that you have all the stakeholders and understand issues brought up by the team

The CPSR report will state recommendations that the CO/ACO will use to make the final determination of approving or disapproving the purchasing system.

## COMMON ISSUES

Some common review issues can be easily corrected by taking the time upfront to put together a comprehensive plan. Planning the system is very important, so don't rush through it. Make sure you are thorough. After the system is planned and documented, it must be executed and maintained to avoid issues. Below are a few common issues, but this list is by no means exhaustive:

- Policies and procedures don't address the requirements
- The actual practice doesn't match the policies and procedures
- Lack of competition – too many sole-source with inadequate justifications
- Inadequate FAR/DFAR flow-downs
- Inadequate price analysis
- Inadequate documentation

**Procurement planning is essential. It is difficult to pass a CPSR if every purchase is urgent.**

## AN EFFECTIVE PURCHASING SYSTEM REQUIRES AN INTEGRATED ERP TOOL

People, processes, and, yes, tools are needed for a successful business model. In this paper, we touched on training for people as well as the need for policies and procedures.

Unanet purchasing software delivers powerful functionality to manage and simplify your buying process, designed to address the specific needs of professional services firms. With Unanet's one system, purchasing integrates directly with timekeeping, expense, financials, and billing, saving time and money, and increasing accuracy. Our web based system makes the process easy and visible from purchase requisition (PR), to issuance of the purchase orders (PO), through to customer invoice. Through Unanet's workflow and approval process, all purchasing transactions can be tracked efficiently and integrated into the project forecasts. With Unanet, the overall purchasing requirements for the CPSR will be met. You can trust the accuracy of the data you are providing to the CPSR team as well as provide reports with all the needed traceability.



Unanet is a leading provider of project-based ERP and CRM solutions purpose-built for Government Contractors, AEC, and Professional Services. More than 3,700 project-driven organizations depend on Unanet to turn their information into actionable insights, drive better decision-making, and accelerate business growth. All backed by a people-centered team invested in the success of your projects, people, and financials.



Aprio provides a comprehensive platform of assurance, tax, and consulting solutions to today's most active industry sectors and successful individuals. For more than 55 years, we have purposefully expanded our service offerings and deepened our industry specialties to better serve the needs of our clients, people, and community. From startup to exit, we help our clients maximize opportunity, minimize risk, and unlock their full potential.



**ADDRESS**  
22970 Indian Creek Drive  
Suite 200  
Dulles, VA 20166



**PHONE**  
703-429-1236



**ONLINE**  
Email: [info@unanet.com](mailto:info@unanet.com)  
Web: [unanet.com](http://unanet.com)



**ADDRESS**  
805 King Farm Boulevard,  
Suite 300  
Rockville, MD 20850



**PHONE & FAX**  
Phone: + 1 301 231 6200  
Fax: + 1 301 231 7630



**ONLINE**  
[aronsonllc.com](http://aronsonllc.com)