

Overview of the CPSR Requirements

Government contract purchasing system requirements vary depending on a contractor's size, types of contracts, and other risk factors. Federal Acquisition Regulation ("FAR") Part 44 – Subcontracting Policies and Procedures, establishes the requirements for review, evaluation, and approval of contractor purchasing systems. For contractors expected to exceed \$25 million in annual sales within the following 12 months (excluding competitive firm-fixed-price and commercial items contracts), the Administrative Contracting Officer ("ACO") must assess the need for a Contractor Purchasing System Review ("CPSR"). This assessment is based on the contractor's past performance and the volume, dollar value, and complexity of its subcontracts. If a contractor's purchasing system has not been reviewed, or has been disapproved, the contractor is required to provide advance notice to the ACO and obtain consent prior to entering into subcontract agreements. Failing a CPSR may result in the contractor being ineligible to bid on future work.

In addition to the requirements of FAR Part 44, on February 24, 2012, the Department of Defense ("DOD") issued the final "Business Systems Rule" that established, through changes to the DOD Federal Acquisition Regulation Supplement ("DFARS"), mandatory requirements for six contractor business systems, including the purchasing system. The DFARS purchasing system requirements, which are applicable to contracts awarded after May 18, 2011, impose mandatory financial penalties (5% withholding for one system, or up to 10% for two or more systems) for any noncompliance that is deemed a "significant deficiency." A significant deficiency is defined as: "shortcomings in the system that materially affect the ability of officials of the DOD to rely upon information produced by the system that is needed for management purposes." There are 24 specific criteria defined that must be present and functioning in order for a purchasing system to be considered acceptable. See DFARS clause 252.244-7001 – Contractor Purchasing System Administration, for a description of these criteria.

Contractor Purchasing Systems Reviews

The Defense Contract Management Agency ("DCMA") and the Defense Contract Audit Agency ("DCAA") share

responsibility for audits of the business systems, with the DCMA being responsible for audits of purchasing systems, among others. It is possible that the DCAA may be engaged to assist with these audits depending on various factors, such as availability of resources. To conduct its audits, the DCMA primarily uses a CPSR checklist consisting of 55 items/criteria, a guidance document titled "DCMA Instruction 109," and the *CPSR Guidebook*. The DCMA continues to update these resources as needed, and they now include requirements to review purchasing systems for compliance with the DFARS Business Systems Rule.

When contractors are selected for a CPSR, they will be asked to walk through their policies and procedures to demonstrate how the system complies with purchasing system requirements. Auditors will typically request that process owners provide the demonstrations, so it is important that these personnel are knowledgeable of end-to-end processes. Process owners should also understand relevant DFARS and FAR criteria, and be able to provide documentation (e.g., flowcharts, narratives, file support, etc.) to auditors to sufficiently support their understanding of the processes. Once walk-throughs are complete, testing of the system is performed, during which the auditor will review specific files and supporting documentation for compliance.

In preparation for purchasing system reviews, contractors should consider performing a self-assessment focused on the following areas:

- Policies and procedures;
- Planning and market research;
- Price competition;
- Prevention of conflicts of interest and misconduct;
- Negotiations;
- Cost or price reasonableness;
- Source selection;
- Flow down of appropriate clauses;
- Procurement administration; and
- Closeout and evaluation.

Our Approach

Chess Consulting has developed a project plan and approach tailored to support government contractor compliance with purchasing system requirements. Our approach includes

adaptable tools and templates designed to support planning, assessment, remediation, and monitoring of the purchasing system to maximize its efficiency and effectiveness. A summary of our approach includes, but is not limited to, the following:

- Identify written policy and procedure gaps to assess implications and develop a work plan/approach to walk through the related processes and controls;
- Perform walk-throughs of procedures and develop a testing strategy using a risk-based approach;
- Review purchasing files and test effectiveness of existing controls supporting the purchasing system;
- Verify actual practices are consistent with written purchasing policies and procedures, as well as FAR and DFARS requirements;
- Verify appropriate supporting documentation and written justifications are included in purchasing files;
- Prepare recommendations to remediate identified weaknesses and provide implementation assistance;
- Report weaknesses and recommendations to process owners and company management; and
- Monitor regulatory agencies' trends and ensure that clients appropriately address compliance risks.

Our professionals also keep abreast of any new developments and trends within the industry to ensure they are given special attention during our engagements. Current industry trends that contractors are experiencing include:

- Missing or incomplete cost or price analysis;
- Missing or incomplete written justifications, and/or failure to properly document the use of sole/single source awards;
- Policies and procedures not addressing regulatory requirements;
- Missing or incomplete evidence/support documented in procurement files;
- Not flowing down appropriate clauses to subcontractors;
- No evidence of current cost or pricing data for subcontracts subject to the Truth in Negotiations Act;
- Policies and procedure not addressing counterfeit electronics; and
- Policies and procedures not addressing how to deal with split awards.

The Chess Consulting Advantage

Our professionals have a track record of success assisting clients throughout the life cycle of a government contract including pre-award, post-award, and dispute-related matters. We bring to each engagement a unique combination of

government contracting regulatory expertise, technical financial accounting and reporting knowledge, and an understanding of our client's business processes, risks, and challenges.

Professionals within our practice have been assisting with purchasing related matters including regulatory price reasonableness since the 1980s. Recent client engagements include:

- *A publicly traded mid-sized government contractor.* The company engaged Chess Consulting to perform a preliminary CPSR to assess if the Purchasing System was ready for the DCMA's review. The contractor previously failed a CPSR and spent the prior year working to address deficiencies. Many of the requirements and areas covered by the DCMA's audit checklist and the DFARS's business systems rule were addressed; however, several key risk areas required remediation including its sole/single source justification and supporting documentation. We worked with the contractor to address the risk areas identified, and it successfully passed the DCMA's next CPSR.
- *A large privately owned government contractor.* The company engaged Chess Consulting to perform a purchasing system review to identify deficiencies and to develop and communicate to management the recommendations for improvement. The review focused on assessing purchasing manuals/policies and actual practices to verify consistency as well as compliance with FAR/DFARS requirements. We interviewed relevant personnel, walked through processes, and tested and assessed documentation to verify compliance. Deficiencies were identified and recommendations for improvement were communicated to management.

Chess Consulting Differentiators

Deep industry knowledge and technical expertise which helps each client deal effectively with the complexities of the processes and issues facing its business.

Profitability focus concentrating on actions and solutions that create a competitive business advantage while fully complying with regulatory requirements.

Practical and creative solutions that effectively address difficult compliance and business issues.

Supportable positions that have been proven to withstand scrutiny from regulatory agencies such as the SEC, DCAA, DOJ, and GAO.