

# Q&A



## GOVERNMENT CONTRACTING

### *Preparing for a Contractor Purchasing System Review (CPSR)*

Business executives in the government contracting world face complex regulatory requirements. Assessing compliance risks can be a daunting task. The Contractor Purchasing System Review (CPSR) is a government audit designed to evaluate the efficiency and effectiveness of the contractor's purchasing and subcontracting practices to ensure that the government derives the maximum savings and benefits when purchasing subcontracted services or products.

As competition increases among government contractors, companies must proactively address their compliance risks. One way to minimize subcontracting risk is to manage your CPSR process effectively to avoid adverse findings. A purchasing system certification can accrue significant benefits for an organization in future dealings with government customers by limiting the level of government administrative oversight on prospective contracts and providing opportunities for future contract awards. Many prime contract and subcontract solicitations explicitly or implicitly require a purchasing system certification before a company will be considered for the award.

During their initial review, most government contractors do not get through the CPSR without at least a few recommendations for improvement. The scope of purchasing and subcontracting practices and procedures that the government expects is extensive and requires appropriate preparation and resourcing.

### *Benefits of Effective Procurement and Subcontracting Practices:*

- Assurance that quality products and services are procured at reasonable prices
- Development of appropriate competition within the subcontracting process
- Built-in professional and ethical standards
- Established file documentation standards
- Reduced Government administrative oversight on future contracts
- Increased opportunities to win future contract awards
- Minimized acquisition lead times and administrative costs

## **Q** When are companies considered for a CPSR?

At least once every three years, the Administrative Contracting Officer (ACO) performs a risk assessment to derive a CPSR schedule. Under the provisions of FAR Part 44.302, if a contractor's sales to the government (excluding competitively awarded firm-fixed-price and competitively awarded fixed-price with economic price adjustment contracts and sales of commercial items pursuant to Part 12) are expected to exceed \$25 million during the next 12 months, the organization will be considered for inclusion in the CPSR schedule. The primary objective of the CPSR is to improve the effectiveness and efficiency of the contractor's purchasing system. Secondly, the CPSR also strives to reduce risk to the government when contracts are awarded non-competitively, or when the prime contractor is allowed to pass on all subcontract costs to the government.

Between the Defense Contract Management Agency and the Defense Contract Audit Agency, there are approximately 270 CPSR audits conducted each year.

## **Q** What factors does the government consider in its risk assessment?

When conducting a CPSR, the government audit will look for signs of a weak contracting environment, such as failure to comply with laws, regulations, or prime contract requirements, or failure to implement appropriate policies, procedures, and practices. The risk assessment considers the volume, complexity, and dollar value of the contractor's purchasing and subcontracting activity, as well as the contractor's past performance in prior CPSRs or other independent audits.

The CPSR team will begin the risk assessment by gathering established risk-related information associated with the contractor. The following factors usually have a significant impact on the overall risk rating assigned to the contractor's purchasing system:

- Prior CPSR approval or disapproval history
- Previous CPSR recommendations or recurring recommendations for improvement
- Timing of previous CPSR audits
- Contract mix (time and materials, cost-plus, or fixed-price)
- Direct materials and material overhead as a percentage of sales
- Sales to the government as a percentage of the contractor's total sales
- Previous DCAA audit reports
- Experience, knowledge, and training of the company's contracting personnel
- The contractor's relative position within the industry
- Mergers, acquisitions, or divestitures
- Significant increases or decreases in sales

The determination of whether or not a company will be included in the CPSR schedule and the scope of the investigation depend upon the risk factors identified in the assessment. It is possible that the

ACO will only want to review one part of a contractor's purchasing system rather than the whole structure.

After completing the risk assessment, the reviewing agency will assign a risk level: high, moderate, or low. When a contractor's system receives a rating of high risk, the CPSR team will usually schedule a review within six months. If the system receives a moderate rating, the agency may highlight the identified weaknesses and schedule a follow-up risk assessment in six months. Contractors receiving an overall risk rating of low will not normally be subject to a CPSR.

## **Q** What will the government look for during a CPSR?

The CPSR audit is designed to be a comprehensive review of a contractor's purchasing policies, procedures, and practices. A team of government administrative contracting specialists will analyze your company's purchasing functions with a focus on identifying possible indications of a weak subcontracting system. The team uses interview and briefing techniques, as well as statistical sampling of purchase orders and subcontracts to evaluate the contractor's procurement system. The CPSR team will review existing policies and procedures related to purchasing and subcontracting to establish whether they include appropriate guidelines, and it will look for evidence of compliance with government regulations and your documented procedures. Potential red flags include non-compliance with public laws or regulations, non-compliance with prime contract requirements, and failure to establish and implement solid policies and procedures. Additionally, the audit team will look at your policies and practices regarding small businesses, planning and post-award management of major subcontract programs, Cost Accounting Standards, appropriateness of subcontract type, and management control systems such as internal audit procedures. During the CPSR, your company will need to demonstrate that its purchasing policies and procedures instill the wherewithal and commitment to procure services and products efficiently and within contract requirements.

## **Q** What is the impact of adverse findings?

A review that results in adverse findings can have a direct impact on your company's bottom line. The government's primary remedy for failure to pass a CPSR is the withholding or withdrawal of your subcontracting system. Your company would no longer be able to issue a subcontract without first seeking and obtaining written approval from a contracting officer, which would drive up cycle times and acquisition costs. Additionally, an adverse review can result in disqualification from competitive requests for proposals and lead to additional government audits and oversight.

Sufficient planning and preparation is the best strategy to ensure CPSR audit readiness. One of the common pitfalls facing government contractors is that they underestimate the time and effort required to prepare for the CPSR by ensuring that proper purchasing controls exist and required information is readily available when selected for a CPSR.