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# Annual Public Contracting Update Symposium

Session 4:  
Purchasing Reviews

# Introductions

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# Agenda

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1. DFARS Business Systems
2. Contractor Purchasing System Review (CPSR)
3. Commercial Determinations
4. Price Analysis Documentation Expectations
5. Take-aways from Recent CPSR Trends

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# 1. DFARS Business Systems

# Defense Contractor Oversight

Defense Contract  
Management Agency  
(DCMA)



Defense Contract Audit  
Agency (DCAA)



# DFARS 252.242-7005

**DCMA**

**DCAA**

**Earned Value Management**

**Property**

**Material Management**

**Estimating**

**Purchasing**

**Accounting**

**DFARS Business Systems**

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## 2. Contractor Purchasing System Review (CPSR)

# Purchasing System – What is it?

- Purchasing system > than people who issue POs and subcontracts
  - Includes all who perform and approve
    - Identification of needs and sources
    - Research for suppliers and prices
    - Analysis and negotiation of prices ✓
    - Payment to suppliers/subcontractors ✓
- Purchasing systems include
  - Policies and procedures, practices, lines of authority, training, internal reviews ✓
  - All activities starting with identification of a requirement through order, receipt and payment ✓
  - Services and supplies directly charged to Government contracts / subcontracts ✓
  - ≠ CostPoint, Oracle (or any automated system)



# CPSR – What, Why and Who?

- What is a Contractor Purchasing System Review (CPSR)?
  - The complete evaluation of a contractor's purchasing of material and services, subcontracting, and subcontract management from development of the requirement through completion of subcontract performance.
- Why does the Government do CPSRs?
  - “Evaluate the efficiency and effectiveness with which the Contractor spends Government funds and complies with Government policy when subcontracting”
- Who Does CPSRs?
  - DoD Agencies – **CPSR Analysts** from Defense Contract Management Agency (DCMA)
  - Non-DoD Agencies – Can engage DCMA or do the review themselves (e.g., PERT for DoE)

# A CPSR is not the end of the line

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- If ACO decides a CPSR is needed... a CPSR is conducted
- Only ACOs can approve or disapprove system
  - DCMA CPSR Analysts perform the review, then provide findings and recommendations in a report
- If the Purchasing System is approved, ACO will –
  - Maintain a level of surveillance
  - Ensure effective contractor management
  - Review effectiveness of corrective actions on any weaknesses
  - Determine if another review is required every 3 years
- If the Purchasing System is disapproved, ACO will –
  - Request corrective action plans and objective evidence that those plans are in effect until system is acceptable

# How do you set yourself up for success?

- Be familiar with the requirements *[up next...]*
- Conduct internal (or out-sourced) Mock CPSRs
- Any weaknesses discovered?
  - Develop/document Corrective Action Plan (CAP)
  - Update policy
  - Train personnel
  - Perform to new standards
  - Be ready to present objective evidence to demonstrate corrections are working

✓ *Tip: A weakness in one business system may suggest potential flaws in other systems... and prompt further Government scrutiny.*

# Rules, Regulations, and Guidance

- FAR 44.303 Extent of Review
  - “A CPSR requires an evaluation of the contractor’s purchasing system.”
  - Criteria listed in FAR 44.303 and 44.202-2
- FAR 52.244-2 Subcontracts
  - “Government reserves the right to review the Contractor’s purchasing system...”
  - Note: CPSR is not limited to procurement actions under prime contracts containing 52.244-2. The clause is just a trigger!
- DFARS 252.244-7001 Contractor Purchasing System Administration
  - “(c) System criteria. The Contractor’s purchasing system shall...”
  - [Meet 24 elements](#)
- DCMA CPSR Guidebook (September 2021)
  - “...provides guidance and procedures ... for evaluating purchasing systems...”
  - [30 Major Purchasing Areas reviewed during a CPSR](#)
  - [CPSR Reports are structured against the 30 listed areas](#)

# DFARS 252.244-7001(c) Criteria

- (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
- (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;

# DFARS 252.244-7001(c) Continued

- (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;
- (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;

# DFARS 252.244-7001(c) Continued

- (17) Enforce adequate [policies](#) on conflict of interest, gifts, and gratuities, including the requirements of 41 U.S.C. chapter 87, Kickbacks;
- (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, including the requirements of [252.246-7007, Contractor Counterfeit Electronic Part Detection and Avoidance System](#), if applicable
- (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 [252.246-7007, Contractor Counterfeit Electronic Part Detection and Avoidance System](#), if applicable
- (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 [252.246-7007, Contractor Counterfeit Electronic Part Detection and Avoidance System](#), and the item marking requirements of [252.211-7003, Item Unique Identification and Valuation](#), if applicable;

# DFARS 252.244-7001(c) Continued

- (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) 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).



# CPSR Guidebook (Sep 2021)

## 30 Major Purchasing Areas reviewed during a CPSR:

Policies and Procedures Manual	Limitation On Pass-Through Charges
Certified Cost or Pricing Data	Documentation
Cost Accounting Standards (CAS)	Internal Review/Self-Audit
Prior Consent and Advance Notification	Training
Small Business Subcontracting Plan	Flowdowns / Ts&Cs
Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment	Purchase Requisition Process
	Commercial Item Determination
Limitations on Use of Appropriated Funds to Influence Certain Federal Transactions (Anti-Lobbying)	Subcontract Types
	Procurement Authority
Defense Priorities and Allocation (DPAS)	Supply Chain Management
Federal Funding Accountability and Transparency Act (FFATA)	Buy American
Counterfeit Parts Mitigation and Surveillance	Specialty Metals
Price Analysis	Close-out Process
Source Selection	Long Term Purchasing Agreements
Negotiation	Change Orders and Modifications
Make-or-Buy Program	Intra/Inter-Company, Affiliate or Subsidiary Transactions

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## 3. Commercial Determinations

# Commercial Determinations – Gov't

- How does the Government establish commerciality?
  - Contracting Officer documents determination >\$250K
    - Previously procured under FAR Part 12 procedures; or
    - DCMA's Commercial Item Database; or
    - Market Research
  - DCMA's Commercial Item Group
    - Database for Government personnel only (PIEE)
    - Database for Industry
  - Must rely upon previous determinations unless overturned by Head of Agency

*DFARS 212.102, Acquisition of Commercial Products and Commercial Services*

# Commercial Determinations - Industry

- The Government's methods may be used, but... the CPSR Analysts may evaluate against different standards
- Why does Industry do Commerciality Determinations?
  - FAR 52.244-6 Subcontracts for Commercial Products and Commercial Services
    - (b) To the **maximum extent practicable**, the **Contractor shall incorporate**, and require its subcontractors at all tiers to incorporate, **commercial products, commercial services, or non-developmental items as components** of items to be supplied under this contract.
    - Provides a short list of FAR clause flow downs (currently xxi)
  - DFARS 252.244-7000: Encourages limiting DFARS clause flow downs unless required or needed
- Exemption to Public Laws
  - Small Business Subcontracting Plan
  - Certified Cost or Pricing Data
  - Cost Accounting Standards



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## 4. Price Analysis Documentation Expectations

# Why Perform a Price Analysis?

- Price analysis is performed whenever you compare one price to another
- Price analysis provides a basis for detecting unreasonable or unrealistic offers
- Price analysis is integral to the procurement process
  - Through analysis, arrive at and document a **determination** that the price is **fair and reasonable**
  - Price analysis is **required** for every procurement

CPSR Tip: CPSR Analysts will look for a **determination** that the [Price] is “**fair and reasonable**” in every procurement file

Business System Tip: DCAA Auditors may rely upon a price analysis to verify a cost as “reasonable”



# Price Analysis Techniques

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## FAR 15.404-1(b)(2)

- i. Comparison of proposed prices received in response to an RFQ/RFP (*adequate price competition*)
- ii. Comparison to historical prices **paid** by the Government or others
- iii. Parametric estimates or estimates developed using rough yardsticks;
- iv. Published price lists, published commodity market prices, similar indexes, and discount or rebate arrangements;
- v. Independent Cost Estimates; or
- vi. Prices obtained through market research for the same or similar items
- vii. Analysis of data other than certified cost or pricing data



# Price Analysis

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*But what if you still cannot determine the price is fair and reasonable? What then?*

***NEGOTIATE!!!***

*Tip: It is always a good idea to ask for a discount or advantageous terms before finalizing the agreement.*

*Finally, you have agreed to a fair and reasonable price.  
Now what?*



***Document the story that led you to determine the price as fair and reasonable.***



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## 5. Take-Aways from Recent CPSR Trends

# Key Takeaways

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- Prepare for your CPSR now!
  - 12+ months of your work will be scrutinized
- Buy commercial products and commercial services as much as possible
  - Required by FAR 52.244-6
  - Document your commercial determination and market research
- Perform Price Analyses when you can examine and evaluate proposed pricing to determine if it is fair and reasonable without evaluating cost elements and proposed profit
  - Six techniques to choose from
  - Total subcontract price must be determined fair and reasonable for **ALL** procurements prior to award
- CPSR Compliance is a team effort and can affect other Business Systems ✓

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# Questions?