



DEPARTMENT OF DEFENSE  
Defense Contract Management Agency

## INSTRUCTION

### Contractor Purchasing System Reviews

Contracts Directorate  
OPR: DCMA-AQ

DCMA-INST 109  
November 28, 2012  
*Change 1, January 9, 2014*

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**SUMMARY OF CHANGES:** *The changes include clarifying when a determination for a Contractor Purchasing System Review (CPSR) is required, clarifying when surveillance is required, and adding the Administrative Contracting Officer (ACO) Surveillance Workbook as an ACO tool.*

**1. PURPOSE.** This Instruction:

- a. *Updates the Agency policy for DCMA-INST 109, "Contractor Purchasing System Reviews" (Reference (a)). (CI)*
- b. *Is established in compliance with DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)" (Reference (b)). (CI)*
- c. *Implements Department policy pursuant to references on pages 4 and 5. (CI)*
- d. *Establishes policies, assigns responsibilities, and provides procedures for performing contractor purchasing system reviews.*

**2. APPLICABILITY.** This Instruction applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence. *(CI)*

**3. MANAGERS' INTERNAL CONTROL PROGRAM.** This Instruction contains internal management control provisions that are subject to evaluation and testing as required by DCMA Instruction (DCMA-INST) 710, "Managers' Internal Control Program" (Reference (c)). The process flowchart is located at Appendix A. *(CI)*

**4. RELEASABILITY - UNLIMITED.** This Instruction is approved for public release.

**5. PLAS CODE.** 094 – Consent to Subcontracts/CPSRs

**6. POLICY RESOURCE PAGE.** <https://home.dcmsa.mil/policy/109r>

**7. EFFECTIVE DATE.** By order of the Director, DCMA, this *change* is effective *January 9, 2014, and all applicable activities shall be fully compliant within 60 days from this date. (C1)*



Timothy P. Callahan  
Executive Director  
Contracts

## TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>REFERENCES</b> .....  | <b>4</b>  |
| <b>CHAPTER 1 - POLICY</b>  |           |
| 1.1. Policy .....  | <b>6</b>  |
| <b>CHAPTER 2 – RESPONSIBILITIES</b>  |           |
| 2.1. Contract Management Office (CMO) Contracts Director or the Director of<br>Corporate/Divisional Administrative Contracting Officer Group ..... | <b>8</b>  |
| 2.2. Administrative Contracting Officers.....  | <b>8</b>  |
| 2.3. Contractor Purchasing System Review Group .....   | <b>9</b>  |
| <b>CHAPTER 3 – PROCEDURES</b>  |           |
| 3.1. Determine Requirements for Contractor Purchasing System Reviews (CPSR).....   | <b>11</b> |
| 3.2. Request a CPSR .....  | <b>11</b> |
| 3.3. Participate in a CPSR.....  | <b>12</b> |
| 3.4. Obtain a CPSR Report .....  | <b>16</b> |
| 3.5. Make Initial System Status Determination .....  | <b>16</b> |
| 3.6. Make Final System Status Determination.....   | <b>18</b> |
| 3.7. Evaluate Contractor’s Corrective Action Plan (CAP) .....  | <b>19</b> |
| 3.8. Approve Previously Disapproved System .....   | <b>20</b> |
| 3.9. Perform Continuing Surveillance .....   | <b>21</b> |
| 3.10. Distribute Notifications.....  | <b>22</b> |
| 3.11. Maintain Records of CPSR Evaluations .....   | <b>22</b> |
| 3.12. Respond to Inquiries About Purchasing System Deficiencies.....   | <b>22</b> |
| <b>APPENDIX</b>  |           |
| Appendix A. Contractor Purchasing System Reviews Process Flowchart .....   | <b>23</b> |
| <b>GLOSSARY</b>  |           |
| Definitions.....   | <b>39</b> |
| Acronyms .....   | <b>41</b> |

*(C1)*

## REFERENCES

- (a) *DCMA-INST 109, "Contractor Purchasing System Reviews," November 28, 2012 (C1)*
- (b) DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," *January 10, 2013 (C1)*
- (c) DCMA-INST 710, "Managers' Internal Control Program," September 12, 2011
- (d) FAR 44.302(a), "Requirements"
- (e) DCMA-INST 131, "Contractor Business Systems," *November 6, 2013 (C1)*
- (f) DCMA-INST 134, "Boards of Review," *November 4, 2013 (C1)*
- (g) DCMA-INST 126, "Contract Audit Follow-Up," *August 23, 2013 (C1)*
- (h) FAR Part 12, "Acquisition of Commercial Items"
- (i) FAR 44.302(b), "Requirements"
- (j) DCMA Memo #11-454, "Corrective Action Requests (CAR) 1.0," December 14, 2011
- (k) DFARS 244.301, "Objective" (Contractors' Purchasing Systems Reviews)
- (l) DFARS 252.244-7001(c), "System criteria" (Contractor Purchasing System Administration)
- (m) FAR 15.406-3, "Documenting the Negotiation"
- (n) *Sections 51 through 58 of Title 41, United States Code (U.S.C.) (C1)*
- (o) DFARS 244.305-70, "Policy" (Contractors' Purchasing Systems Reviews)
- (p) DFARS 244.305-70(c)(2), "Initial determination" (Contractors' Purchasing Systems Reviews)
- (q) DFARS PGI 244.305-70(c)(2), "Initial determination" (Contractors' Purchasing Systems Reviews)
- (r) FAR 44.305-2(a), "Notification"
- (s) DFARS PGI 244.305-70(c)(2)(ii)(C), "Evaluation of contractor's response" (Contractors' Purchasing Systems Reviews)
- (t) DFARS 244.305-70(c)(3)(i)(B), "Final determination" (Contractors' Purchasing Systems Reviews)
- (u) DFARS 252.244-7001(f), "Withholding Payments" (Contractor Purchasing System Administration)
- (v) DFARS 252.242-7005, "Contractor Business Systems"
- (w) DFARS PGI 244.305-70(c)(3)(ii)(B), "Correction of significant deficiencies" (Contractors' Purchasing Systems Reviews)
- (x) DFARS 244.305-70(d) "System approval" (Contractors' Purchasing Systems Reviews)
- (y) FAR 44.304, "Surveillance"
- (z) DFARS 244.305-70(e) "Contracting officer notifications" (Contractors' Purchasing Systems Reviews)
- (aa) DCMA-INST 809, "Records Management," May 2011
- (ab) DFARS 244.305-70(f), "Mitigating the risk of purchasing system deficiencies on specific proposals" (Contractors' Purchasing Systems Reviews)
- (ac) FAR 44.305-2(a)(3)(i), "Notification"
- (ad) FAR Subpart 9.4, "Debarment, Suspension, and Ineligibility"
  
- (ae) FAR 16.203, "Fixed Price with Economic Price Adjustment"
- (af) FAR 9.104-1(a), "General Standards"
- (ag) DFARS 232.072, "Financial responsibility of contractors"

- (ah) DCAA Contract Audit Manual, *Chapter 14, section 3, "Assessing a Contractor's Financial Capability" (C1)*
- (ai) *Ralph C. Nash, Et Al., "The Government Contracts Reference Book: A Comprehensive Guide To The Language Of Procurement", (3d ed. 2007) (C1)*
- (aj) *DFARS 252.244-7001(a), "Definitions" (Contractor Purchasing System Administration) (C1)*

## CHAPTER 1

### POLICY

**1.1. POLICY.** It is DCMA policy that:

1.1.1. An Administrative Contracting Officer (ACO) shall determine if a contractor meets the regulatory requirements identified in FAR 44.302(a) (Reference (d)) for a purchasing system review.

1.1.2. If the requirements of Reference (d) are met, the ACO shall initiate a review of the contractor's purchasing system.

1.1.3. Upon the completion of a purchasing system review, the ACO shall determine whether the purchasing system has significant deficiencies.

1.1.4. *If the ACO determines that a contractor's purchasing system has significant deficiencies, the ACO is responsible for issuing a decision to disapprove a contractor's purchasing system. (CI)*

1.1.5. Before disapproving a contractor's purchasing system, the ACO shall obtain higher level review from the Contractor Business Systems Review Panel in accordance with DCMA-INST 131, "Contractor Business Systems" (Reference (e)). *(CI)*

1.1.6. If an ACO does not agree with a CPSR recommendation from a functional specialist *or auditor*, the *ACO* shall *request* an appropriate *level* Board of Review. *(CI)*

1.1.7. The ACO's decision to disapprove a contractor's purchasing system, and to implement contract payment withholds, shall be governed by the Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), and DCMA Instructions. *(CI)*

1.1.8. The ACO shall *maintain a sufficient level of* annual surveillance. *A sufficient level of surveillance can be maintained by using the ACO Surveillance Workbook (see paragraph 3.9.2). At least every 3 years after an initial determination has been made that a contractor meets the criteria for a CPSR, the ACO shall make a written determination of whether a CPSR is necessary. Completion of the CPSR Surveillance Summary worksheet in the ACO Surveillance Workbook constitutes a written determination. However, a CPSR may be requested at any time the ACO determines there is a need. (CI)*

1.1.9. *The ACO shall require the contractor to correct all significant deficiencies.* The ACO shall evaluate corrective actions reported by a contractor and then issue an appropriate follow-up decision of approval or disapproval of the contractor's purchasing system in accordance with Reference (e). *(CI)*

1.1.10. The ACO shall follow proper tracking and reporting requirements (as found in Reference (e)) to account for the status and outcomes of contractor purchasing system reviews.

## CHAPTER 2

### RESPONSIBILITIES

**2.1. CONTRACT MANAGEMENT OFFICE (CMO) CONTRACTS DIRECTOR, OR THE DIRECTOR OF CORPORATE/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER GROUP.** The appropriate CMO Contracts Director, or the Director of Corporate Administrative Contracting Officer/Divisional Administrative Contracting Officer (CACO/DACO) Group shall:

2.1.1. Ensure compliance with this Instruction by subordinate contracting staff.

2.1.2. Review the decision-making process of the ACO that leads to the issuance of an initial and final determination on the adequacy of the contractor's purchasing system.

2.1.3. Ensure that required Contractor Business Systems Review Panels and Boards of Review are properly completed as governed by Reference (e) and DCMA-INST 134, "Boards of Review" (Reference (f)). *(CI)*

2.1.4. Ensure that ACOs follow applicable procedures of Reference (e) when disapproving a contractor's purchasing system and initiating payment withholds on applicable contracts.

2.1.5. Ensure that ACOs follow appropriate procedures (in DCMA-INST 126, "Contract Audit Follow-Up" (Reference (g)) for the disposition of reportable DCAA audits (to include reporting in the Contract Audit Follow-Up (CAFU) e-Tool) with findings associated with a contractor's purchasing system.

2.1.6. Ensure that ACOs follow tracking and reporting requirements related to business system reviews as identified in Reference (e).

**2.2. ADMINISTRATIVE CONTRACTING OFFICERS (ACO).** The ACO (the term Administrative Contracting Officer (ACO) as used in this Instruction can refer to a Divisional Administrative Contracting Officer (DACO), *Corporate Administrative Contracting Officer (CACO)* or ACO unless otherwise specified) shall: *(CI)*

2.2.1. Initiate, pursuant to Reference (d), an initial purchasing system review when sales to the Government (excluding competitively awarded firm-fixed-price (FFP), fixed price with economic price adjustment (FP w/EPA), and sales of commercial items covered in FAR Part 12 (Reference (h)) *are expected to* exceed \$25 million in the next 12 months. *(CI)*

2.2.2. Annually perform evaluation and surveillance of contractors' purchasing systems.

2.2.3. Request that a purchasing system review be performed when necessary.

2.2.4. Obtain higher level review from the Contractor Business Systems Review Panel if contemplating the disapproval of a contractor's purchasing system. Refer to Reference (e).

2.2.5. Bring *an* issue before a Board of Review if the ACO does not agree with recommendation of a functional specialist or auditor. Refer to Reference (f). *(CI)*

2.2.6. Make a determination of *whether* the contractor's purchasing system *is acceptable* and grant approval or disapproval. *(CI)*

2.2.7. Withhold payments in accordance with contractual clauses, DFARS, and Reference (e), if a contractor's purchasing system is disapproved. *(CI)*

2.2.8. Subsequent to an initial *determination*, make a *written* determination every 3 years whether a purchasing system review is necessary, in *accordance with* FAR 44.302(b) (Reference (i)). *(CI)*

2.2.9. Follow procedures in Reference (g) to resolve and disposition DCAA audit findings on a contractor's purchasing system.

2.2.10. Report the current status of a contractor's purchasing system using the *Contract Business Analysis Repository* (CBAR) e-Tool. Refer to Reference (e). *(CI)*

2.2.11. Report corrective action (regarding corrective actions on contractors' purchasing systems) status information in the Corrective Action Requests (CAR) eTool. Refer to Reference (j).

2.2.12. Document all evaluation activity relating to a contractor's purchasing system. Records are to be maintained in paper *form only if an electronic copy of the record is not available*. *(CI)*

**2.3. CONTRACTOR PURCHASING SYSTEM REVIEW (CPSR) GROUP.** The CPSR Group shall:

2.3.1. Annually issue a Tasking Memorandum to assist ACOs in determining contractor eligibility for a CPSR.

2.3.2. Conduct the CPSR and prepare a report with findings and recommendations for the ACO.

2.3.3. Consult with the ACO in determining the *acceptability* of the contractor's purchasing system. *(CI)*

2.3.4. *Review and provide an opinion on the adequacy of the corrective action plan (CAP).* Conduct follow-up reviews to determine whether corrective actions have been implemented *and deficiencies corrected. (C1)*

2.3.5. Assist the ACO in developing a *contractor purchasing system* surveillance plan. *(C1)*

***2.4. DIRECTORS OF TECHNICAL/FUNCTIONAL COMPONENTS.*** *The appropriate Technical or Functional Director shall ensure that functional specialists, including pricing, technical and other specialists, support the ACO during annual surveillance of a purchasing system.*

## CHAPTER 3

### PROCEDURES

**3.1. DETERMINE REQUIREMENTS FOR CONTRACTOR PURCHASING SYSTEM REVIEWS (CPSR).** The ACO shall determine the need for a CPSR based on, but not limited to, the past performance of the contractor, subcontracting volume, complexity of subcontracts, and dollar value of the subcontracts. *(CI)*

3.1.1. As directed in Reference (d), if the contractor's sales to the Government (excluding competitively awarded FFP contracts, competitively awarded FP with EPA *contracts*, and FAR Part 12 sales of commercial items pursuant to Reference (h)) are expected to exceed \$25 million during the next 12 months, the ACO shall perform a review to determine if a CPSR is needed. *(CI)*

3.1.1.1. Qualifying sales *include* prime contracts, subcontracts, and modifications. *(CI)*

3.1.1.2. The \$25 million threshold applies to both large and small business contractors.

3.1.1.3. If contractors do not track sales in a manner that specifically identifies and readily excludes competitively awarded FFP, FP w/EPA, and FAR Part 12 (Reference (h)) contracts, the ACO should ask the contractor to provide a most recent incurred cost submission and/or current budget information to identify future Government sales, and particularly cost reimbursable Government sales, over the next 12 months.

3.1.1.4. On an annual basis, the CPSR Group issues a Tasking Memorandum that identifies the requirements for requesting a contractor purchasing system review. A useful tool to assist in identifying contractors subject to a CPSR is the DCMA "Contractor Purchasing System Review (CPSR) Risk Assessment Form." This form can be found at a link in the Contractor Purchasing System Resource Page associated with this Instruction.

3.1.2. After *an initial determination of the need for a CPSR has been made*, the ACO shall *make a written determination* whether *a* purchasing system review is necessary *at least every 3 years*. However, a CPSR may be requested at any time the ACO determines there is a need. *(CI)*

### 3.2. REQUEST A CPSR.

3.2.1. Pursuant to DFARS 244.301 (Reference (k)), the ACO is solely responsible for initiating review of the contractor's purchasing system when necessary. However, other organizations may request an ACO to initiate a CPSR.

3.2.2. ACOs shall request the assistance of DCMA's CPSR Group in the performance of a CPSR. The CPSR Group is the authorized group of contract specialists (GS-1102 series) within

DCMA who specialize in performing purchasing system reviews on behalf of the ACO. In performing the review, CPSR *Group* functional specialists may request the assistance of technical specialists from the CMO, legal counsel, and DCAA. (CI)

3.2.3. When a CPSR is necessary, the ACO shall send the request to the CPSR Group at CPSRCenter@dcma.mil along with a copy of a completed “CPSR Risk Assessment Form”. (CI)

3.2.3.1. The contractor completes Section I of the CPSR Risk Assessment form and the ACO completes Section II.

3.2.3.2. When assessing risk, the ACO shall consider input received from functional specialists that answer the following questions:

3.2.3.2.1. Have prime contract quality or delivery issues been attributed to subcontractor performance? (CI)

3.2.3.2.2. Have audit and/or pricing reports questioned or qualified subcontract costs as unsupported? (CI)

3.2.3.2.3. Have advance notifications and/or consent requests been incomplete or insufficient? (CI)

3.2.4. The CPSR Group will review the Risk Assessment and schedule a purchasing system review giving priority to the highest risks identified. *The ACO shall continue to perform annual surveillance if the CPSR is delayed due to being given a low priority.* (CI)

**3.3. PARTICIPATE IN A CPSR.** The CPSR Procurement Analysts shall conduct the review in accordance with the “Guide for Planning and Conducting Contractor Purchasing Systems Reviews (CPSRs).” (This guide can be found at a link of the same name in the Resource Page.) In general, the review consists of the elements explained below.

3.3.1. The CPSR Group will assign a Procurement Analyst who will act as the team captain for the review.

3.3.2. The team captain will be the primary contact, for both the ACO and contractor, to establish the schedule and conduct the CPSR.

3.3.3. The team captain will supply the ACO *with* a set of pre-review questionnaires no less than 8 weeks prior to the review date. The ACO must disseminate the questionnaires for completion by the DCMA functional specialists assigned and familiar with contractor performance. (CI)

3.3.4. The CPSR review team captain, in conjunction with the ACO, will define the scope, the location(s) of the review, and the support required from other functional specialists.

3.3.4.1. Define the Scope. An initial review will be a complete appraisal of the contractor's purchasing system. Subsequent reviews will either be a complete appraisal of the contractor's purchasing system or limited appraisal of areas that the ACO and the CPSR review leader determine necessary. The conditions to consider in determining the scope of a subsequent review are whether:

3.3.4.1.1. The past review resulted in significant deficiencies requiring corrective action.

3.3.4.1.2. There was a major change in the contractor's purchasing policies, procedures, or key personnel.

3.3.4.1.3. There was a major change in plant workload or type of work.

3.3.4.1.4. A new responsibility affected the contractor's purchasing organization and its coordination with other departments.

3.3.4.2. Functional Specialists Support. Depending on the scope of the review, functional specialists *may* be asked to provide support for the review. *(CI)*

3.3.5. ACOs (along with selected CPSR team members) are expected to attend Entrance and Exit Conferences.

3.3.6. In reviewing the purchasing system for compliance with the criteria identified in DFARS 252.244-7001(c) (Reference (1)), the CPSR team will determine *whether*: *(CI)*

3.3.6.1. There is an adequate system description including policies, procedures, and purchasing practices that comply with the FAR and DFARS.

3.3.6.2. All applicable purchase orders and subcontracts contain terms, conditions, all flow-down clauses, and any other clauses needed to carry out the requirements of the prime contract.

3.3.6.3. The contractor has an organizational plan that has clear lines of authority and responsibility.

3.3.6.4. Purchase orders are made that:

3.3.6.4.1. Are based on authorized requisitions.

3.3.6.4.2. Include complete and accurate documentation of purchase transactions (to include support for supplier selection and prices paid).

3.3.6.4.3. Document the subcontract/purchase order files that are subject to Government review.

3.3.6.5. The contractor maintains complete and accurate documentation of purchase history by part/commodity to support vendor selection and prices paid.

3.3.6.6. The contractor applies a consistent make or buy program that is in the best interest of the Government.

3.3.6.7. The contractor uses competitive sourcing to the maximum extent practicable and ensures debarred or suspended subcontractors are properly excluded from contract award.

3.3.6.8. The contractor *evaluates prices, quality, delivery, technical capabilities, and financial capabilities of competing vendors to ensure fair and reasonable prices. (CI)*

3.3.6.9. The contractor requires management level justification and adequate cost/price analysis as applicable for any sole or single source award.

3.3.6.10. The contractor performs *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. (CI)*

3.3.6.11. The contractor documents negotiation in accordance with FAR 15.406-3 (Reference (m)).

3.3.6.12. The contractor seeks, takes, and documents economically feasible purchase discounts, including cash discounts, trade discounts, quantity discounts, rebates, freight allowances, and company-wide volume discounts.

3.3.6.13. There *is* a process to ensure proper type of contract selection that prohibits cost-plus-a-percentage-of-cost subcontracts. *(CI)*

3.3.6.14. The contractor maintains subcontract surveillance to ensure:

3.3.6.14.1. Timely delivery of an acceptable product, and

3.3.6.14.2. That procedures exist to notify the Government of potential subcontract problems that may impact delivery, quantity, or price.

3.3.6.15. The contractor documents and justifies reasons for subcontract changes that affect cost or price.

3.3.6.16. The contractor notifies the Government of the award of all subcontracts that contain the FAR and DFARS flow-down clauses that allow for Government audit of those subcontracts and ensures adequate audit of those subcontracts.

3.3.6.17. The contractor enforces adequate policies on conflict of interest, gifts, and gratuities, including the requirements of the Anti-Kickback Act (Reference (n)).

3.3.6.18. The contractor performs internal audits or management reviews, training, and maintains policies and procedures for the purchasing department to ensure the integrity of the purchasing system.

3.3.6.19. The contractor establishes and maintains policies and procedures to ensure purchase orders and subcontracts contain mandatory and applicable flow-down 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 contract. (CI)*

3.3.6.20. The contractor provides 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.

3.3.6.21. The contractor establishes and maintains 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.

3.3.6.22. The contractor establishes and maintains procedures to ensure performance of adequate price or cost analysis on purchasing actions.

3.3.6.23. The contractor establishes and maintains procedures to ensure:

3.3.6.23.1. That proper types of subcontracts are selected.

3.3.6.23.2. That controls exist for oversight and surveillance of subcontracted effort.

3.3.6.24. The contractor establishes and maintains procedures to notify the contracting officer (in writing) if either of the following occurs:

3.3.6.24.1. The contractor changes the amount of subcontract effort after award such that it exceeds 70 percent of the total cost of 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.

3.3.6.24.2. Any subcontractor changes the amount of lower-tier subcontract 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).

3.3.7. Difficulties in obtaining data from the contractor must be elevated to the *ACO, and if necessary, the* appropriate Director (paragraph 2.1. above). *(CI)*

3.3.8. The CPSR team will assess the health of the contractor's purchasing system and may generate recommendations ranging from those required to bring the system into compliance to *those that enhance* the system's overall efficiency and effectiveness. *(CI)*

3.3.8.1. If the CPSR team identifies a deficiency that could potentially be considered significant, he or she shall *promptly* discuss the matter with the ACO responsible for determining the acceptability of the Contractor's business system. *(CI)*

3.3.9. While it is within the ACO's authority to determine overall system status, neither the CPSR analysts nor the ACO may comment on any pending or planned decision to grant or withhold approval of the contractor's purchasing system at the Exit Conference. However, the CPSR analysts and ACO should identify purchasing system weaknesses at the Exit Conference.

**3.4. OBTAIN A CPSR REPORT.** The CPSR review team captain shall submit the complete report to the ACO within 30 days after *the on-site review*. *(CI)*

3.4.1. If the CPSR report identifies any significant purchasing system deficiencies, the report shall describe the deficiencies in sufficient detail to allow the *ACO* to understand the deficiencies. *(CI)*

3.4.1.1. When significant deficiencies are identified in a business system, the functional specialist (e.g. CPSR team captain) shall prepare a draft Level III Corrective Action Request (CAR) *in the CAR eTool* and attach it to their Business System Analysis Summary (BSAS). The CAR shall be printed *from the CAR eTool*, marked "draft," and sent to the cognizant *ACO along with the electronic version*. NOTE: The *ACO shall not release the* CAR or submit *it* in the CAR eTool at this time. *(CI)*

3.4.2. *Template* system status letters for the ACO's use can be *found on the resource pages for this instruction and Reference (e)*. The letters have been approved for legal sufficiency and will accompany the official report. *The template letters shall be tailored as appropriate for each particular situation*. *(CI)*

3.4.3. The ACO shall request a Board of Review (in accordance with Reference (f)) within 10 days of a receipt of a CPSR report if the ACO disagrees with the findings of the CPSR report.

**3.5. MAKE INITIAL SYSTEM STATUS DETERMINATION.** In accordance with DFARS 244.305-70 (Reference (o)), the ACO, in consultation with the purchasing system analyst, shall make an initial determination of the *acceptability* of the contractor's purchasing system and approve or pursue correction of any deficiencies in accordance with DFARS 244.305-70(c)(2) (Reference (p)). *(CI)*

3.5.1. Before issuance, the initial determination shall be reviewed and approved by the appropriate Director (paragraph 2.1.).

3.5.2. Consistent with DFARS PGI 244.305-70(c)(2) (Reference (q)), within 10 days of receiving the CPSR report the ACO shall advise the contractor of the ACO's decision to approve a system or shall identify significant deficiencies.

3.5.2.1. If there are no significant deficiencies, the ACO shall determine a system to be acceptable/approved and issue an approval letter to the contractor *with a copy to the CPSR Mailbox*. See the Resource Page of this Instruction for templates. (CI)

3.5.2.1.1. *The ACO's approval letter shall include a statement that the system is acceptable and approved. Additionally, in accordance with FAR 44.305-2(a) (Reference (r)), the ACO's approval letter shall include: (CI)*

3.5.2.1.1.1. Identification of plant or plants covered by the approval.

3.5.2.1.1.2. Effective date of approval.

3.5.2.1.1.3. A statement that the system approval applies to all Federal Government contracts at the plant to the extent that cross-servicing arrangements exist. (CI)

3.5.2.1.1.4. A statement that the system approval waives the contractual requirement for advance notification in fixed-price contracts, but not for cost-reimbursement contracts. (CI)

3.5.2.1.1.5. A statement that the system approval waives the contractual requirement for consent to subcontracts in fixed-price contracts and for specified subcontracts in cost-reimbursement contracts but not for those subcontracts, if any, selected for special surveillance and identified in the contract schedule. (CI)

3.5.2.1.1.6. A statement that system approval may be withdrawn at any time at the ACO's discretion. (CI)

3.5.2.1.1.7. Identification of exceptional circumstances where a class or classes of subcontracts may continue to be subject to consent and the reason they are subject to consent. (CI)

3.5.2.2. As explained in References (p) and (q), if the ACO determines that there is one or more significant deficiencies (defined as *a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes*), the ACO shall issue an initial determination to the contractor that: (CI)

3.5.2.2.1. Contains a description of each significant deficiency in sufficient detail for the contractor to understand the deficiency.

3.5.2.2.2. Provides a copy of the CPSR report to the contractor.

3.5.2.2.3. Requests that the contractor respond (in writing) to the initial determination within 30 days.

**3.6. MAKE FINAL SYSTEM STATUS DETERMINATION.** In accordance with DFARS PGI 244.305-70(c)(2)(ii)(C) (Reference (s)), the ACO, in consultation with functional specialists, shall evaluate both the contractor's response to the initial determination and any progress made by the contractor toward correction of deficiencies (such as providing a CAP), and make a final determination. *(CI)*

3.6.1. After receiving the contractor's response (that might include a CAP) to an initial determination, the ACO shall seek consultation (as needed) about the response from the CPSR Team, technical specialists from *the* CMO, legal counsel, and DCAA auditors. This evaluation should be performed within 30 days of receiving the contractor's response and any additional information requested (Reference (s)). *(CI)*

3.6.2. When a CACO/DACO/ACO network exists, the ACO shall obtain all appropriate contracting officers' concurrence within the network prior to notifying the contractor of the final determination. Obtaining concurrence within the network will ensure consistent treatment of like contractor business system issues throughout a company.

3.6.3. If the ACO finds the contractor's response adequate and no significant deficiencies remain, the ACO shall make a final determination (after obtaining written/documented approval from the appropriate Director) and notify the contractor, *by approval letter*, that the purchasing system is adequate and approved. The ACO shall follow the guidance *regarding approval letters* found in paragraph 3.5.2.1. *(CI)*

3.6.3.1. When the purchasing system is found adequate, the ACO shall not finalize the Level III CAR, but instead shall cancel the CAR in the CAR eTool. *(CI)*

3.6.4. If significant deficiencies still remain, the ACO shall obtain appropriate levels of review of a planned final determination that disapproves a contractor's purchasing system. Refer to Reference (e).

3.6.4.1. When a CACO/DACO/ACO network exists, the ACO shall obtain all appropriate contracting officers' concurrence within the network prior to notifying the contractor of the final determination. Obtaining concurrence within the network will ensure consistent treatment of like contractor business system issues throughout a company.

3.6.4.2. The appropriate Director shall document approval of the final determination before issuance to the contractor or requesting a Contractor Business Systems Review (CBSR)

Panel (Reference (e)). A Director may delegate this action to a level no lower than the contract team supervisor/leader.

3.6.4.3. When the ACO's final determination disapproves the purchasing system, the ACO shall obtain a higher-level review from the CCSR Panel prior to notifying the contractor, *by disapproval letter*, that the system is disapproved. If the Panel recommends approval of the system *and* the ACO disagrees with the recommendation, the ACO shall document his or her reason for not following the advice and follow *the* guidance found in Reference (e). *(CI)*

3.6.5. After receiving a "withhold approval" recommendation from a CCSR Panel, the ACO may issue a final determination to disapprove the system in accordance with DFARS 244.305-70(c)(3)(i)(B) (Reference (t)).

3.6.5.1. The ACO shall document CBAR with the status of the business system. If the system is disapproved then the ACO shall finalize the Level III CAR in the CAR eTool and attach it to the final determination in accordance with the applicable system clause. *(CI)*

3.6.5.2. The letter shall request that the contractor, within 45 days of receipt of the final determination, either correct the deficiencies or submit an acceptable CAP showing milestones and actions to eliminate the deficiencies *with a copy to the CCSR Mailbox*. *(CI)*

3.6.5.3. The ACO shall withhold payments pursuant to DFARS 252.244-7001(f) (Reference (u)) if DFARS 252.242-7005, Contractor Business Systems Clause (Reference (v)) is included in a contract. Guidance for withholding payments is provided in Reference (e).

**3.7. EVALUATE CONTRACTOR'S CORRECTIVE ACTION PLAN.** After an ACO requests a CAP, the ACO shall evaluate the subsequent CAP provided by a contractor. *(CI)*

3.7.1. The ACO *shall* review the contractor's CAP to see that it addresses all significant deficiencies previously identified to *the* contractor (see paragraph 3.6.5.). *(CI)*

3.7.2. The ACO shall return an unacceptable CAP to a contractor for reconsideration and rework. The ACO should describe the deficiencies in sufficient detail for the contractor to understand what must be corrected in order for the CAP to be acceptable.

3.7.3. Upon receipt of an acceptable CAP, the ACO shall *request* a follow-up review as soon as possible after the contractor notifies the ACO that the deficiencies have been corrected. See the steps found in section 3.8. *(CI)*

3.7.4. If the contractor submits an acceptable CAP within 45 days of receipt of the ACO's final determination and notice of intent to withhold payments, the ACO should follow guidance found in Reference (e) to consider whether the withhold of payment percentage should be reduced (from 5 percent to 2 percent, or other applicable percentage).

**3.8. APPROVE PREVIOUSLY DISAPPROVED SYSTEM.** If an ACO previously disapproved a purchasing system, and the contractor implements adequate corrective actions, the ACO shall pursue an evaluation of the contractor's purchasing system *to determine whether it can be approved.* (CI)

3.8.1. Pursuant to DFARS PGI 244.305-70(c)(3)(ii)(B) (Reference (w)), when a contractor advises that it has corrected deficiencies that led the ACO to withhold or withdraw approval of a purchasing system, the ACO shall request a system review to verify the contractor has corrected the deficiencies and implemented ACO recommendations. (CI)

3.8.2. *When the ACO requests a follow-up system review (see paragraph 3.8.1.), the CPSR Group will make a reasonable effort to complete the review in a timely manner to allow the ACO to meet the 90-day requirement to make a determination that the significant deficiencies have been corrected, pursuant to References (e) and (v).* (CI)

3.8.3. *If the CPSR Group is not able to promptly perform follow-up review activity, and the ACO has a reasonable belief (based on sufficient information from the contractor) that the corrective actions have been implemented, the ACO has the option to issue a determination that the contractor has corrected all significant deficiencies.* (CI)

3.8.4. If the evaluation (see paragraph 3.8.2.) of the CPSR Group finds that the contractor has corrected all significant deficiencies, the ACO shall issue an approval letter (to comply with DFARS 244.305-70(d), Reference (x)) following the steps found in paragraphs 3.6.2. and 3.6.3. (CI)

3.8.5. If the ACO determines that the contractor's corrective actions have only corrected some, *but not all, of the significant* deficiencies, the ACO shall follow guidance found in Reference (e) to see if the payment withhold rate can be reduced. The reduction will be some proportional amount based on a ratio of *the effectively implemented* corrections compared to all corrections covered in the CAP. (CI)

3.8.6. If the ACO determines that the system is still not adequate, the ACO shall notify the contractor *by letter* that system approval is still being withheld. The ACO shall identify the remaining significant deficiencies that must be corrected to qualify the system for approval. (CI)

3.8.6.1. The written notice shall request the contractor to either correct the deficiencies or submit an acceptable CAP (showing milestones and actions to eliminate the deficiencies) within 45 days of receipt of this updated final determination. (CI)

**3.9. PERFORM CONTINUING SURVEILLANCE.** Pursuant to FAR 44.304 (Reference (y)), the ACO shall:

3.9.1. Maintain a sufficient level of surveillance to ensure that the contractor is effectively managing its purchasing program. *Surveillance can be conducted annually using the ACO Surveillance Workbook as discussed in paragraph 3.9.2. (C1)*

3.9.2. *Develop* a plan to cover pertinent phases of the contractor's system (pre-award, post-award, performance and contract completion). The plan should provide for reviewing the continued effectiveness of the contractor's corrective actions taken as a result of previous Government recommendations. *The ACO Surveillance Workbook has been developed to meet the surveillance requirement of FAR 44.304. ACO surveillance needs to be accomplished annually to validate that a contractor is effectively managing their purchasing system or identify significant deficiencies requiring the CPSR Group's assistance in performing an in depth review. The cumulative findings in the workbook will assist the ACO in making a decision to request a CPSR. The workbook can be found at a link on the resource page for this Instruction. (C1)*

3.9.3. If, after a CPSR and after issuing a system approval, the ACO later receives a DCAA audit report that identifies problems with a contractor's purchasing system, the ACO shall immediately assess the validity of the system approval. If the ACO, with the assistance of the CPSR Group, determines that the system is still adequate, the ACO shall prepare a resolution/disposition memorandum containing:

3.9.3.1. An affirmative statement that the ACO agrees or disagrees with each audit finding and recommendation.

3.9.3.2. Sound rationale for each position to resolve each audit finding and audit recommendation. The rationale must demonstrate that the ACO has considered appropriate regulatory, legal, factual, or expert information related to the issues raised by DCAA.

3.9.3.3. Advisory recommendations received from a required Board of Review. Refer to Reference (f).

3.9.3.4. Approval of a resolution/disposition memorandum from the appropriate Director.

3.9.4. If the ACO determines that the system is not adequate, an initial system status determination will be issued in accordance with paragraph 3.5. and the process proceeds until the system is adequate and approved.

3.9.5. Adjustments to the surveillance plan may be needed to ensure effective implementation of corrective actions or when new purchasing system weaknesses are observed.

**3.10. DISTRIBUTE NOTIFICATIONS.** As explained in DFARS 244.305-70(e) (Reference (z)), the ACO shall promptly distribute copies of a final determination to the auditor, payment office, affected contracting officers at the buying activities, and cognizant contracting officers in contract administration activities when:

3.10.1. Approving a system.

3.10.2. Disapproving a system and withholding payments.

3.10.3. Approving a previously disapproved system and releasing withheld payments.

**3.11. MAINTAIN RECORDS OF CPSR EVALUATIONS.** The ACO shall:

3.11.1. Properly document all evaluation activities relating to a contractor's purchasing system. Records are to be maintained *in accordance with DCMA-INST 809, "Records Management" (Reference (aa))*. See Reference (aa) for more details such as length of records retention *period*. *(CI)*

3.11.2. Properly resolve and disposition DCAA audit findings on a contractor's purchasing system in accordance with Reference (g).

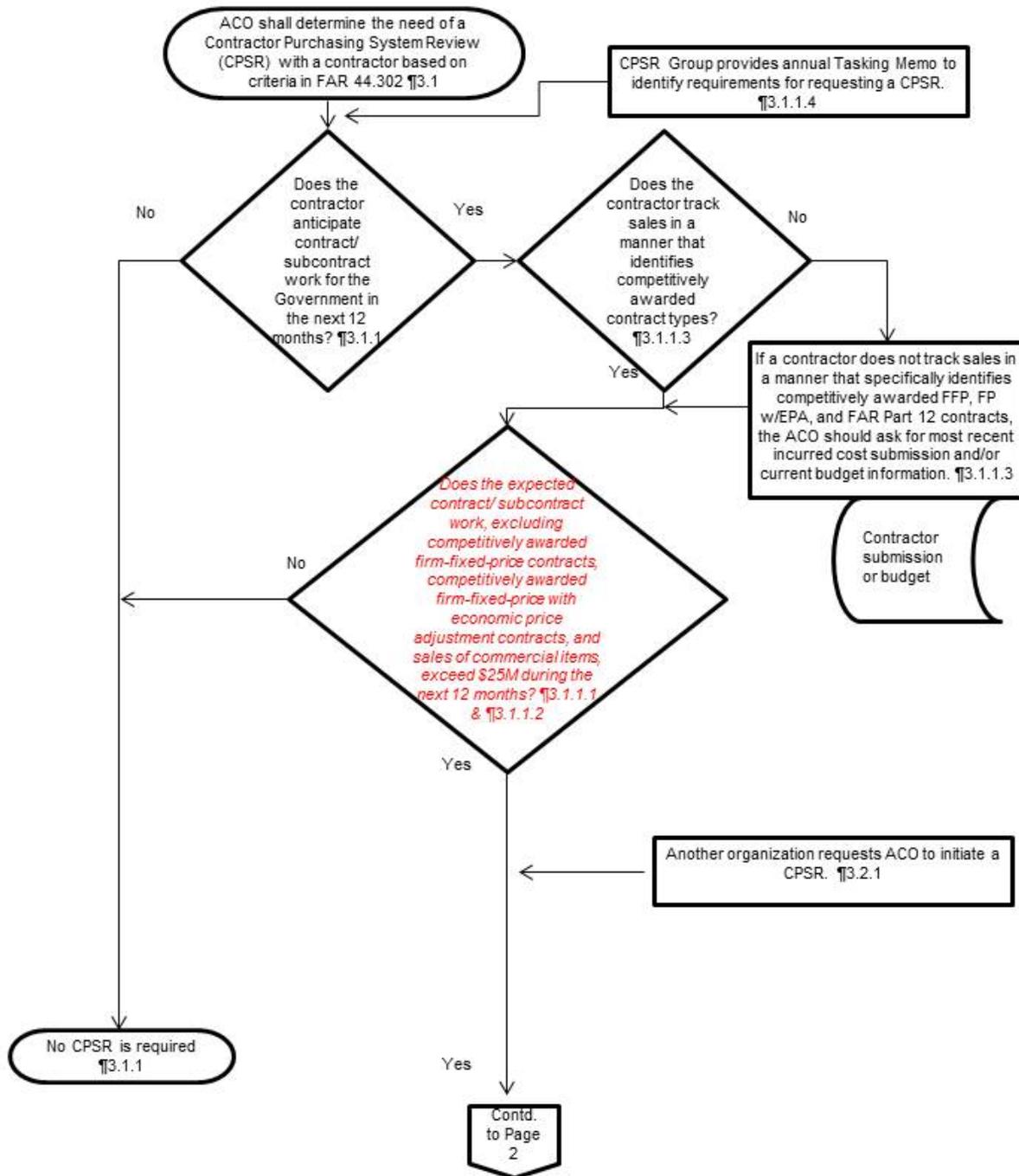
3.11.3. Properly report the current status of a contractor's purchasing system using the CBAR e-Tool in accordance with Reference (e).

3.11.4. Properly report corrective action status information *on contractors' purchasing systems* in the Corrective Action Requests (CAR) eTool. Refer to Reference (f). *(CI)*

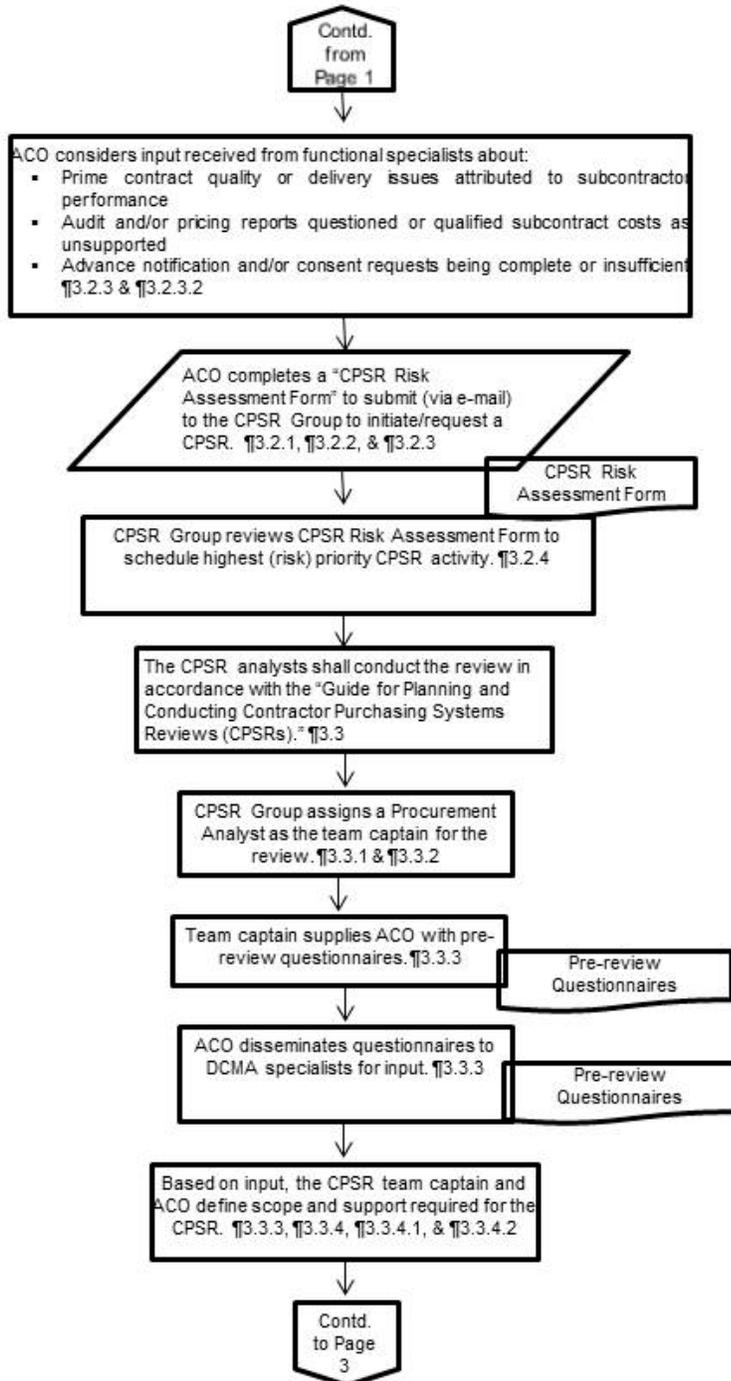
**3.12. RESPOND TO INQUIRIES ABOUT PURCHASING SYSTEM DEFICIENCIES.** ACOs should be prepared to provide information to a procurement contracting officer (PCO) who seeks information about deficiencies in a contractor's purchasing system. Pursuant to DFARS 244.305-70(f) (Reference (ab)), PCOs may seek information on the types of deficiencies identified with a contractor's purchasing system and how these deficiencies might impact negotiations on a specific proposal.

### APPENDIX A

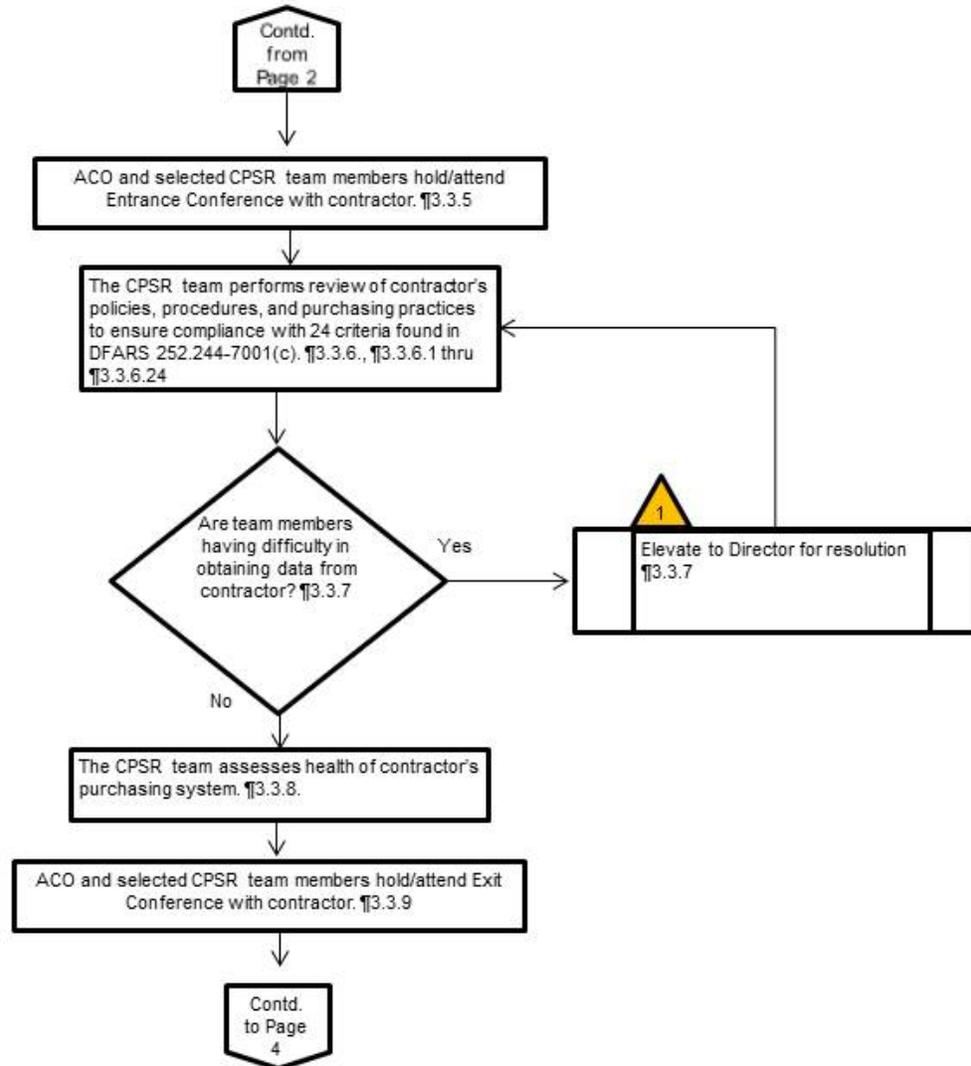
#### Contractor Purchasing System Reviews Process Flowchart



### Contractor Purchasing System Reviews Process Flowchart



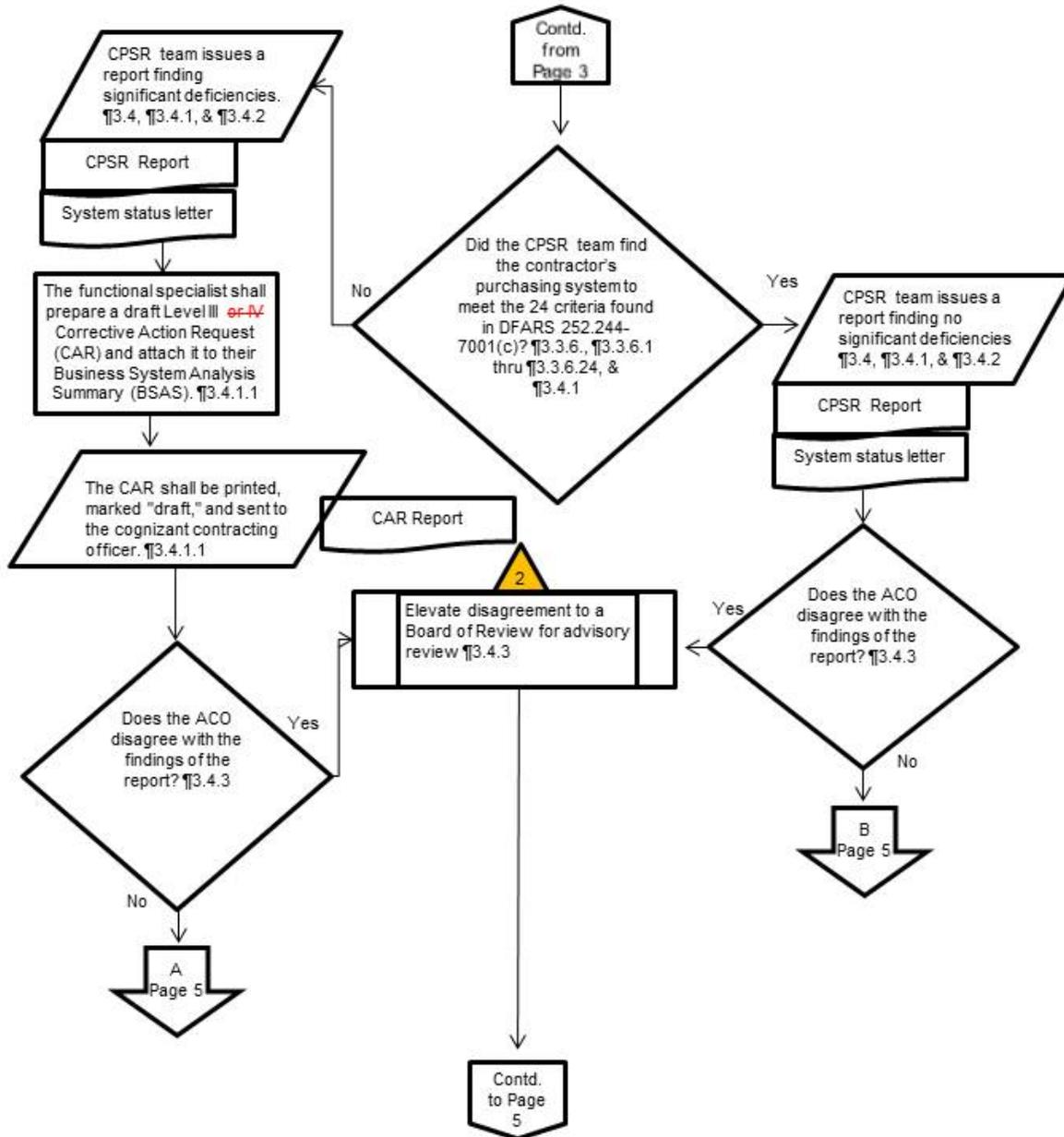
### Contractor Purchasing System Reviews Process Flowchart



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Flowchart Page 3

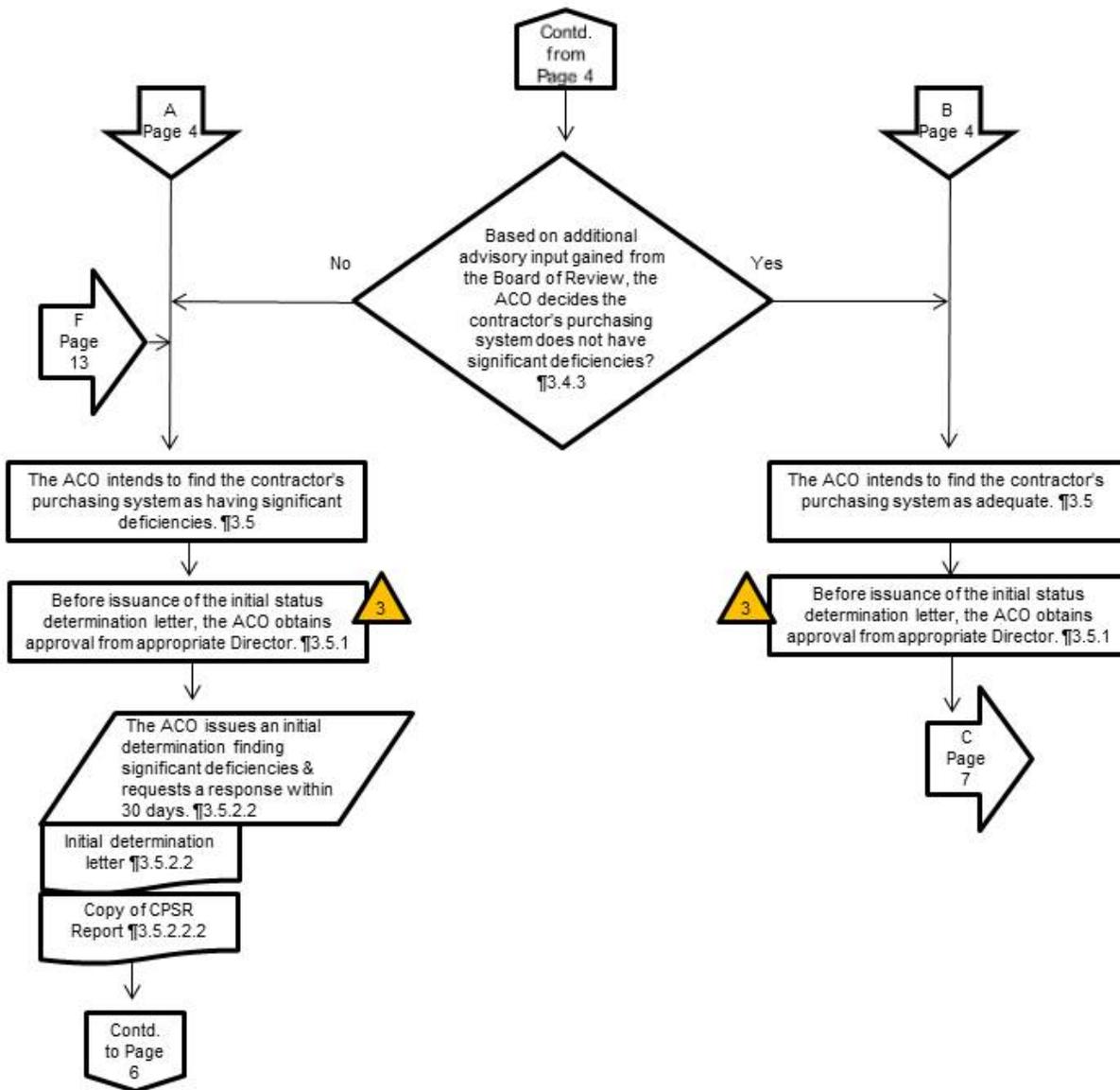
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Flowchart Page 4

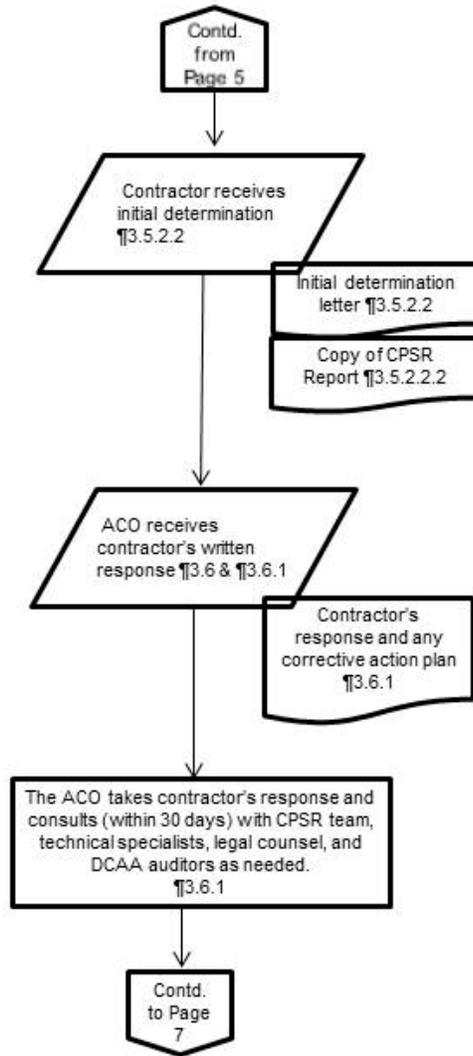
Contractor Purchasing System Reviews Process Flowchart



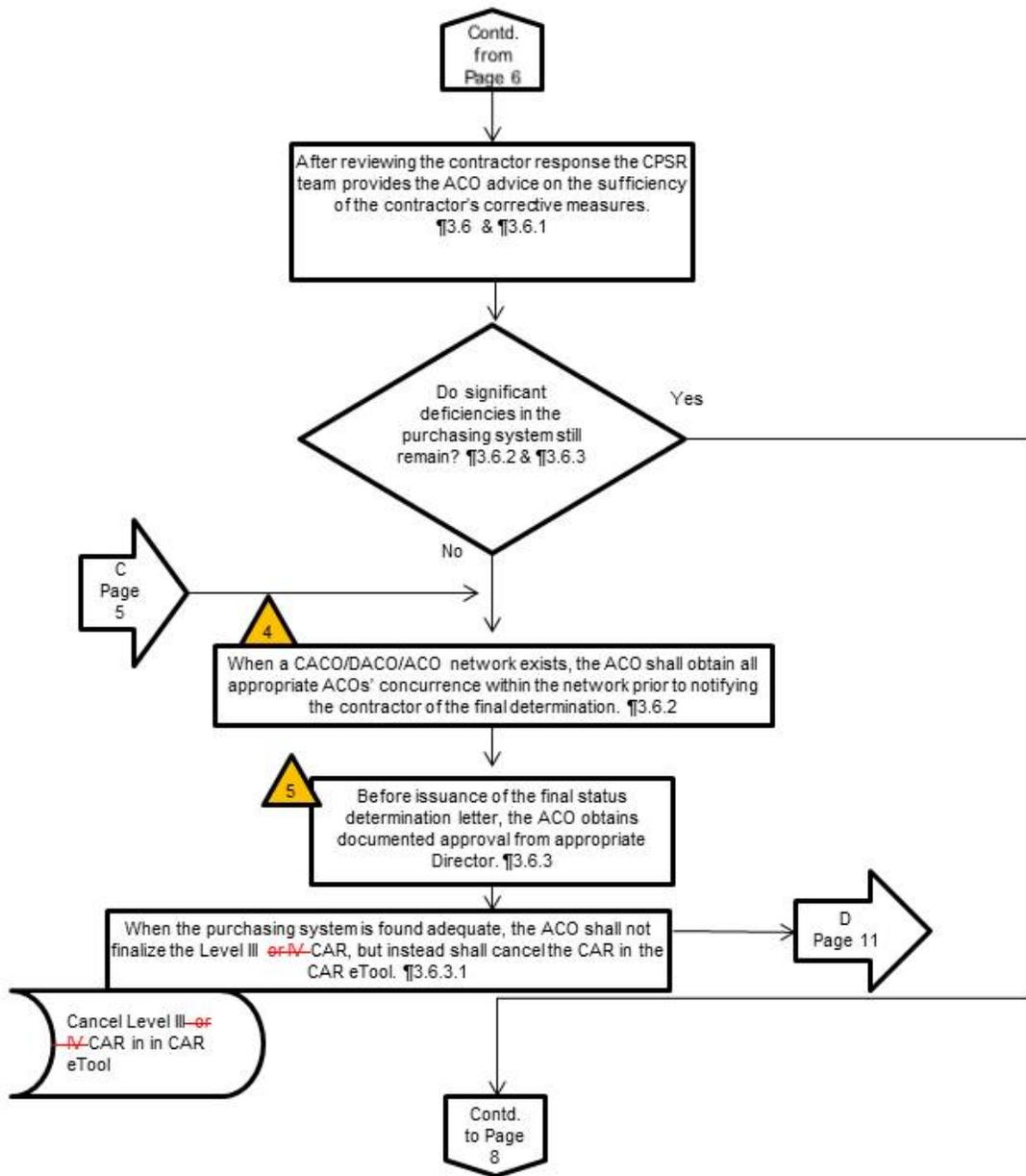
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Flowchart Page 5

Contractor Purchasing System Reviews Process Flowchart

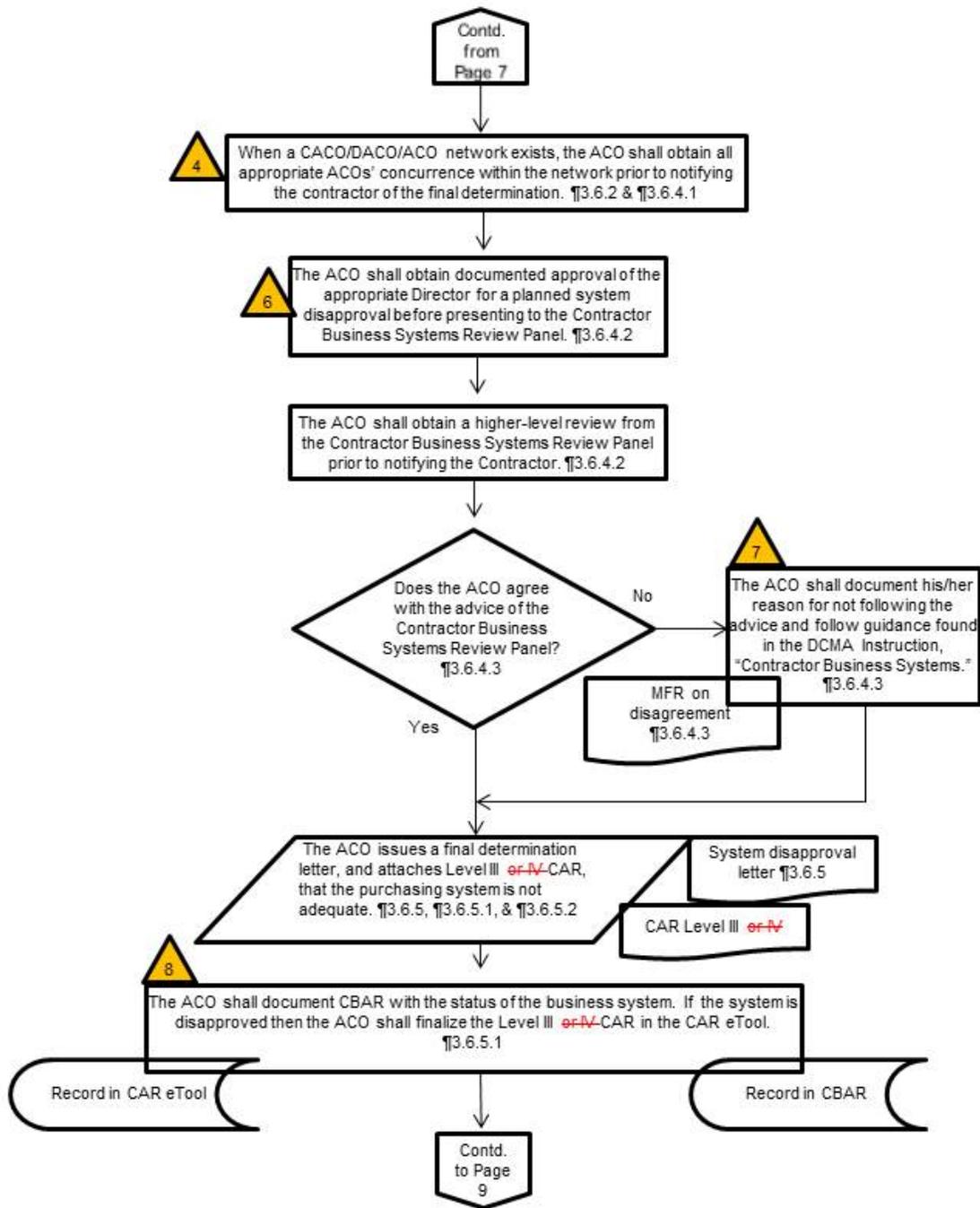


Contractor Purchasing System Reviews Process Flowchart



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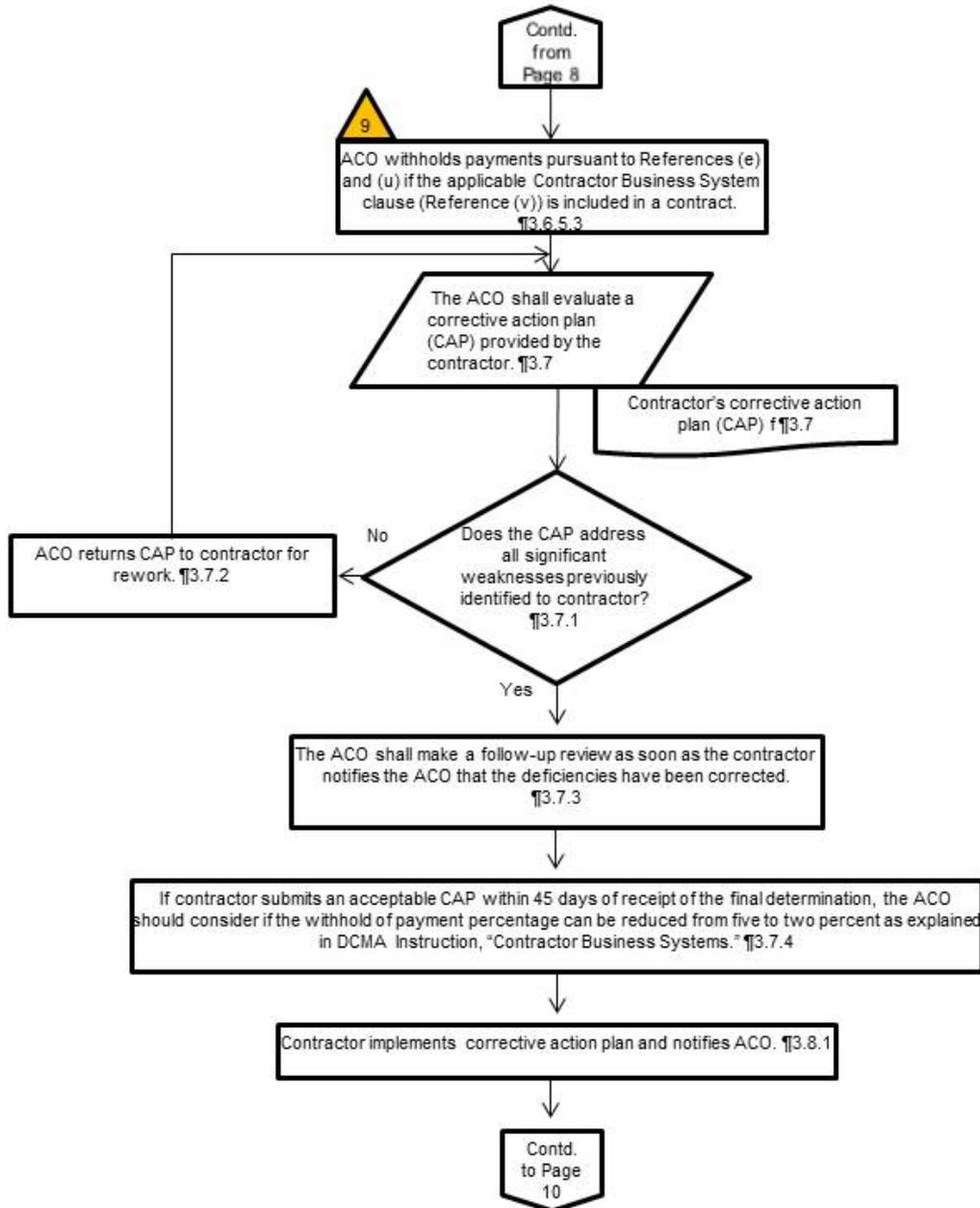
Contractor Purchasing System Reviews Process Flowchart



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Flowchart Page 8

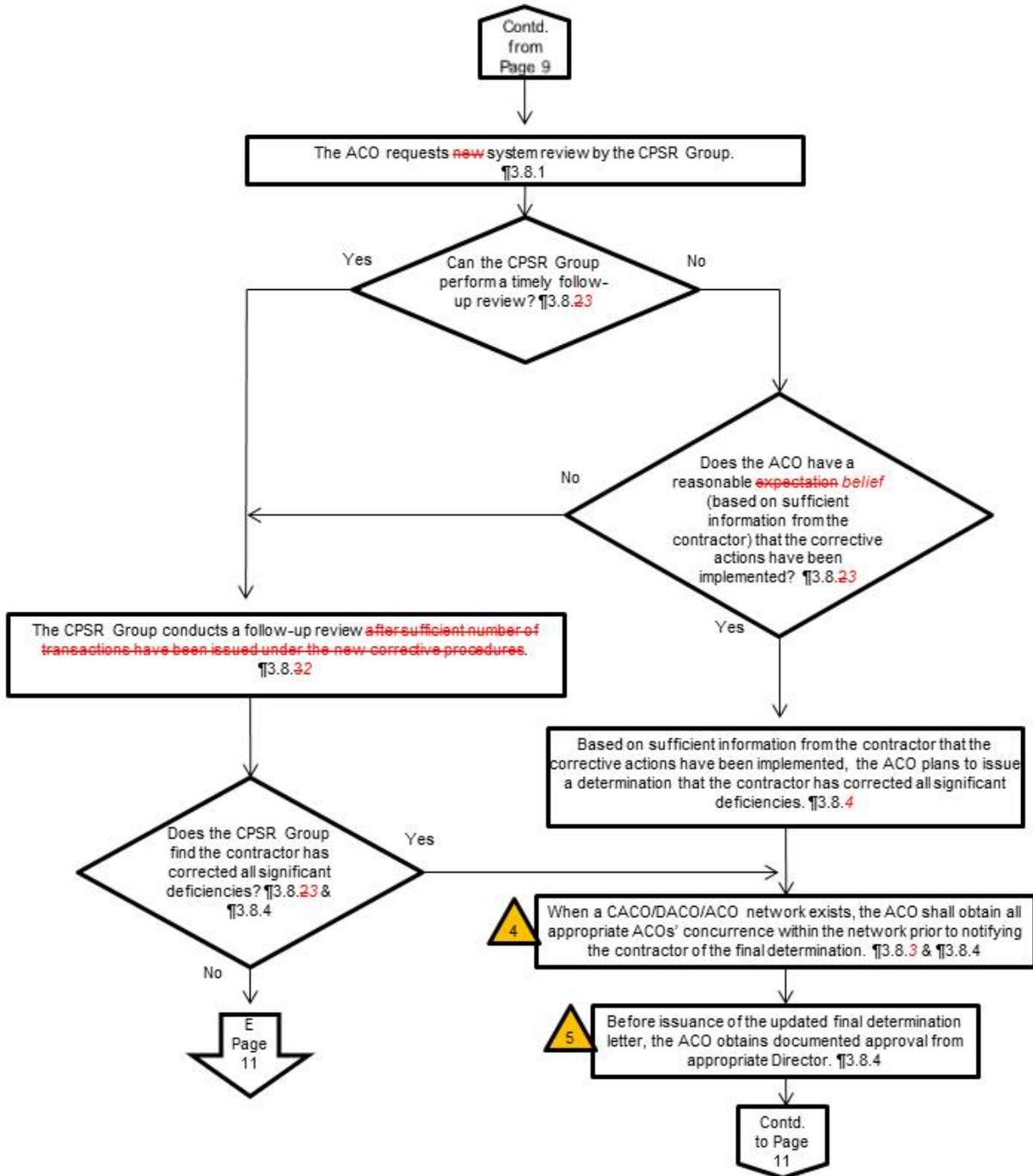
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Flowchart Page 9

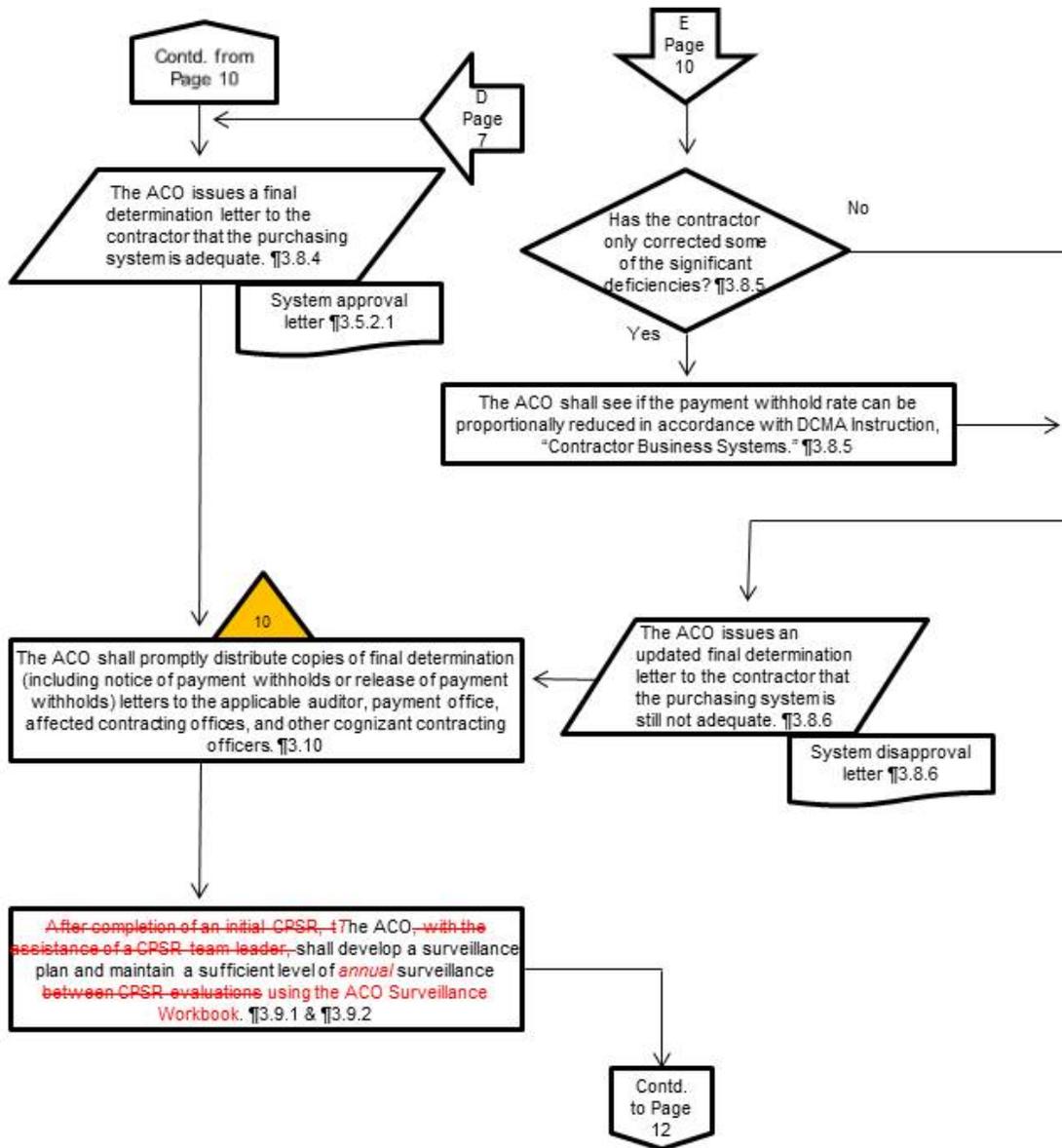
Contractor Purchasing System Reviews Process Flowchart



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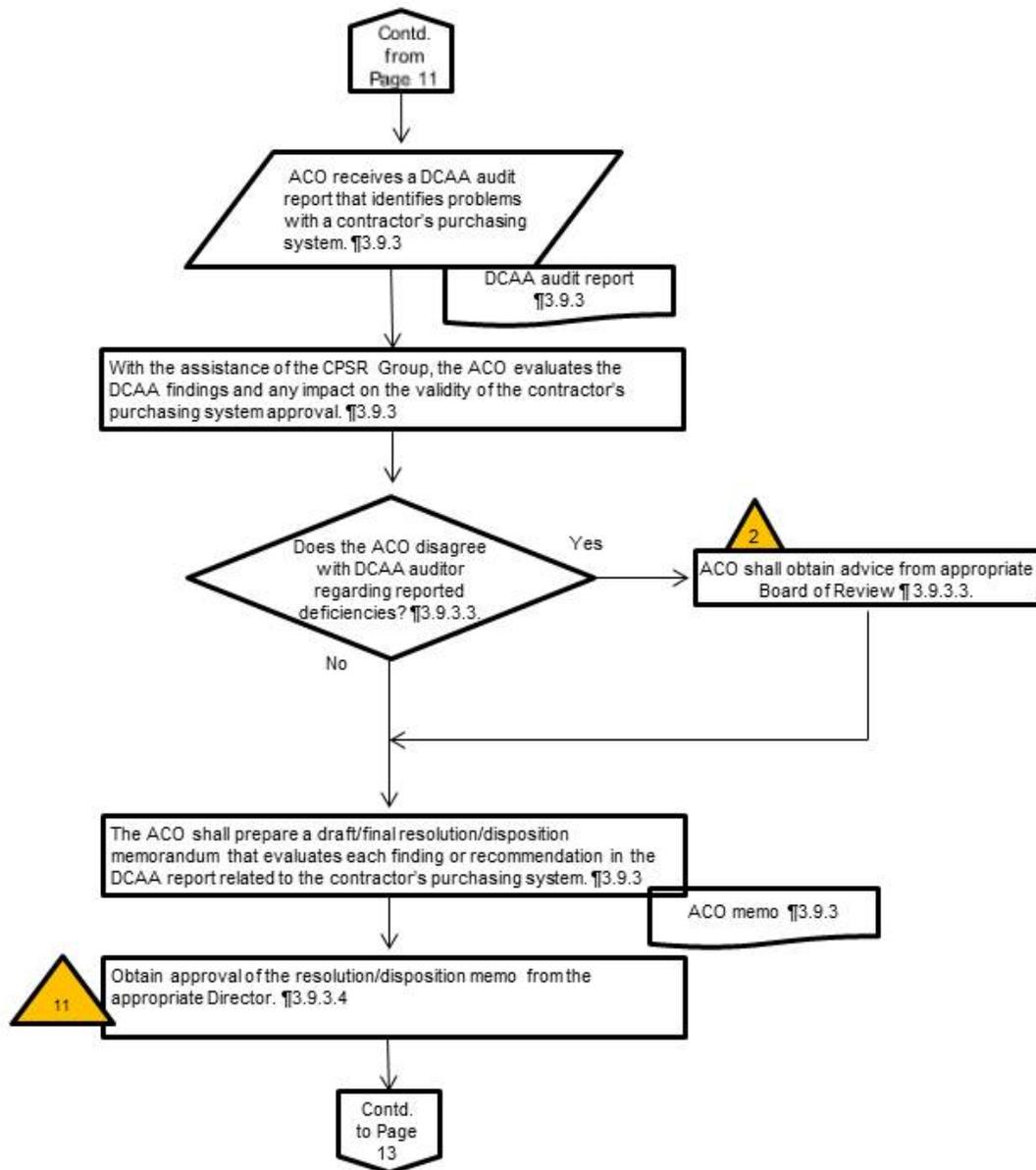
Flowchart Page 10

Contractor Purchasing System Reviews Process Flowchart



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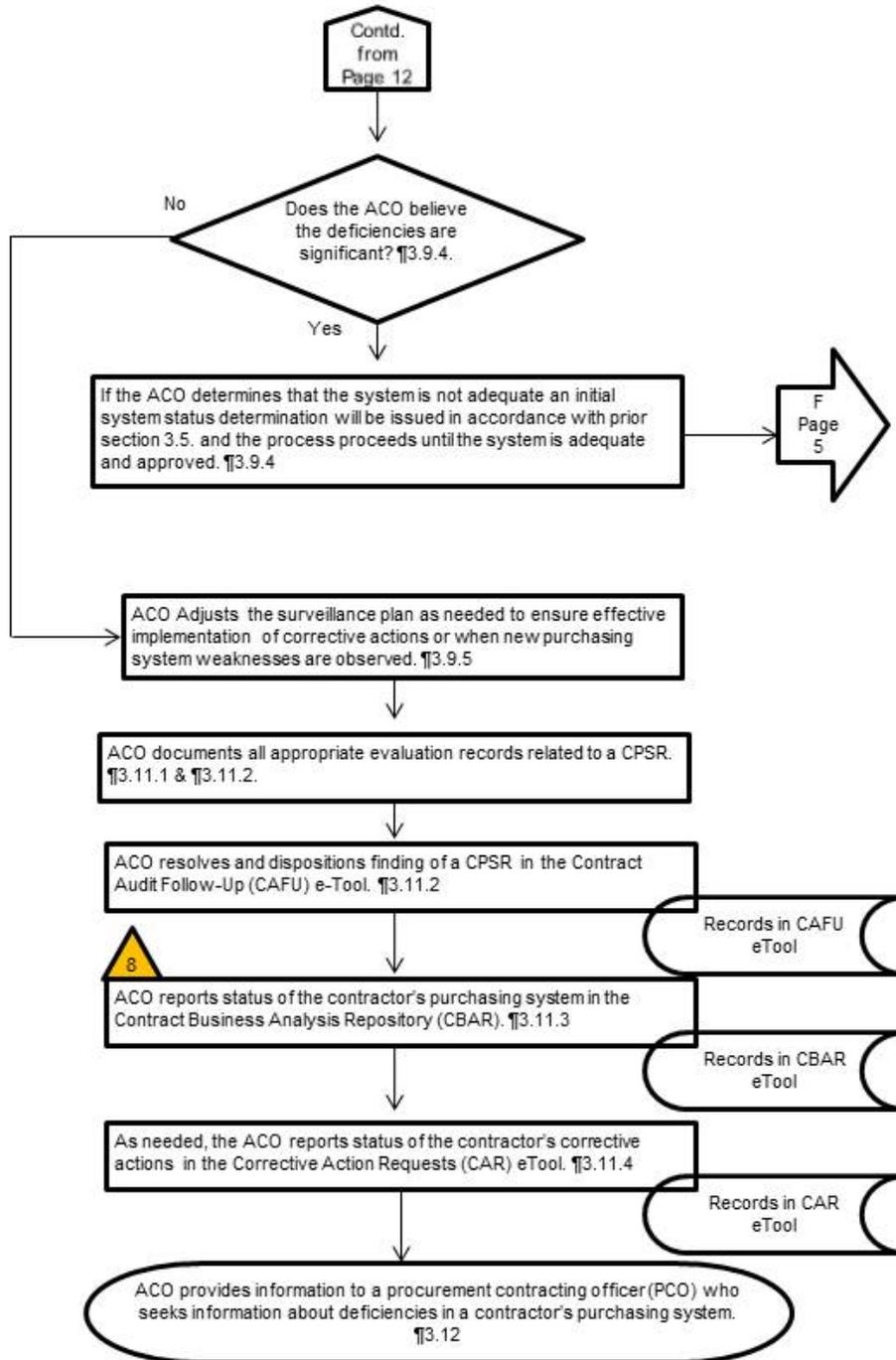
### Contractor Purchasing System Reviews Process Flowchart



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Flowchart Page 12

### Contractor Purchasing System Reviews Process Flowchart



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Flowchart Page 13

Contractor Purchasing System Reviews Process Flowchart

 - Key control number notes

| Key Control No. | Functional Area   | Risk  | Possible Controls   |
|-----------------|---|---|---|
| 1               | Elevate problem of obtaining data from contractor to Director for resolution  | By omitting this process government resources (labor time) are wasted from not resolving delays caused by the contractor  | This instruction documents the risk and need to obtain the noted level of management involvement  |
| 2               | Elevate disagreement to a Board of Review for advisory review   | By omitting this management review /resolution process risks are increased for an ACO to: a) make an unwise decision or b) obtain management support for a controversial decision | This instruction documents the risk and need to obtain the noted level of management involvement  |
| 3               | Before issuance of the initial status determination letter, the ACO obtains approval from appropriate Director  | By omitting this management review step risks are increased for an ACO to make a decision without the control of obtaining a second more knowledgeable opinion                    | This instruction documents the risk and need to obtain the noted level of management involvement  |
| 4               | When a CACO/DACO/ACO network exists, the ACO shall obtain all appropriate ACOs' concurrence within the network prior to notifying the contractor of the final determination | Lack of consultation may result in a decision that negatively impacts contract actions for other ACOs in a business network   | This instruction documents the risk and need to obtain noted levels of peer and management review |

Contractor Purchasing System Reviews Process Flowchart

 - Key control number notes

| Key Control No. | Functional Area   | Risk   | Possible Controls   |
|-----------------|---|--|---|
| 5               | Before issuance of the final status determination letter, the ACO obtains documented approval from appropriate Director   | By omitting this management review step risks are increased for an ACO to make a decision without the control of obtaining a second more knowledgeable opinion | This instruction documents the risk and need to obtain the noted level of management involvement  |
| 6               | The ACO shall obtain documented approval of the appropriate Director for a planned system disapproval before presenting to the Contractor Business Systems Review Panel (CBSRP) | By omitting this management review step risks are increased for an ACO to make a decision without the control of obtaining a second more knowledgeable opinion | This instruction documents the risk and need to obtain the noted level of management involvement  |
| 7               | The ACO shall document his/her reason for not following the advice of the CBSRP   | By omitting this procedure the ACO fails to provide an audit trail that explains/defends a controversial decision.   | This instruction and the "Contractor Business Systems" instruction documents the risk and need for an ACO to provide a documented audit trail |
| 8               | The CO shall document CBAR with the status of the business system   | By omitting this procedure the ACO fails to provide critical information that may impact Procurement Contracting Officers who use CBAR data                    | This instruction documents the risk and need to update CBAR   |

Contractor Purchasing System Reviews Process Flowchart



- Key control number notes

| Key Control No. | Functional Area   | Risk   | Possible Controls   |
|-----------------|---|--|---|
| 9               | ACO withholds payments due to disapproved Purchasing System   | By omitting this step the contractor will be overpaid  | This instruction and the "Contractor Business Systems" instruction documents the risk and need for an ACO to withhold payments as appropriate |
| 10              | The ACO shall promptly distribute copies of final determination (including notice of payment withholds or release of payment withholds) letters to the applicable auditor, payment office, affected contracting offices, and other cognizant contracting officers | By not following this process outside organizations will not be notified of this critical information  | This instruction documents the risk and need to distribute critical documents to outside organizations  |
| 11              | Obtain approval of the resolution/disposition memo from the appropriate Director  | By omitting this management review step risks are increased for an ACO to make a decision without the control of obtaining a second more knowledgeable opinion | This instruction documents the risk and need to obtain the noted level of management involvement  |
|                 |   |  |   |

## CONTRACTOR PURCHASING SYSTEMS REVIEWS PROCESS FLOWCHART GLOSSARY

### DEFINITIONS

**Cross-servicing Arrangements.** This phrase of “cross-servicing arrangements” found at Reference (ac) might apply *to* two potential “cross-service” arrangements. First, if one plant or division has cross-servicing arrangements with other related company divisions, then the procurement activity of the approved purchasing system should be adequate on other divisions’ Government contracts for which that approved division performs the procurement effort. Second, the DCMA approval of the contractor’s purchasing system is intended to apply to all procurements made on all Government contracts through the approved purchasing system of that company. In other words, other Government agencies should accept the DCMA approval of the contractor’s purchasing system. *(CI)*

**Debarred Subcontractors.** Debarred subcontractors are subcontractors to a prime contractor ~~who~~ *that* have been excluded by a debarring official from Government contracting and Government-approved subcontracting for a reasonable and specified period. *See Reference (ad). (See also definition of Suspended Subcontractors.) (CI)*

**Economic Price Adjustment Contracts.** See Reference (ae). A contract with economic price adjustment provides for upward and downward revision of the stated contract price upon the occurrence of specified contingencies. Economic price adjustments are of three general types:

(1) Adjustments based on established prices. These price adjustments are based on increases or decreases from an agreed-upon level in published or otherwise established prices of specific items or the contract end items.

(2) Adjustments based on actual costs of labor or material. These price adjustments are based on increases or decreases in specified costs of labor or material that the contractor actually experiences during contract performance.

(3) Adjustments based on cost indexes of labor or material. These price adjustments are based on increases or decreases in labor or material cost standards or indexes that are specifically identified in the contract.

**Financial Capabilities.** The ability of a contractor or subcontractor to have adequate short term financial resources to complete performance on a Government contract. See References (af), (ag), and (ah).

**Flow-down Clauses.** The FAR and DFARS require that certain clauses in a prime contractor’s contract be included in subcontracts for work on the same prime contract effort. *A flow-down clause imposes on the subcontractor the same obligations and responsibilities that the prime contractor has to the Government.* See Reference (ai). *(CI)*

**Lower-tier Subcontractors.** First-tier subcontractors have a direct contract with the prime contractor. From the first-tier subcontractor downward, as each subcontractor enters into other subcontract arrangements with each other, each subsequent subcontractor becomes a lower-tier subcontractor to the prime contractor.

**Significant Deficiencies.** *A shortcoming in the system that materially affects the ability of officials of DoD to rely upon information produced by the system that is needed for management purposes. See Reference (aj). (C1)*

**Suspended Subcontractors.** *Suspended subcontractors are subcontractors to a prime contractor that have been temporarily disqualified by a suspending official from Government contracting and Government-approved subcontracting. See Reference (ad). (See also definition of Debarred Subcontractors.) (C1)*

## **GLOSSARY**

### **ACRONYMS**

|           |   |
|-----------|---|
| ACO       | administrative contracting officer                |
| CACO      | corporate administrative contracting officer      |
| CAP       | corrective action plan                            |
| CAR       | corrective action request                         |
| CBAR      | contract business analysis repository             |
| CBSR      | contractor business system review                 |
| CMO       | contract management office                        |
| CPSR      | Contractor Purchasing System Review               |
| DACO      | divisional administrative contracting officer     |
| DCAA      | Defense Contract Audit Agency                     |
| DCMA-INST | DCMA Instruction                                  |
| DFARS     | Defense Federal Acquisition Regulation Supplement |
| FAR       | Federal Acquisition Regulation                    |
| FFP       | firm-fixed-price                                  |
| FP w/EPA  | fixed price with economic price adjustment        |
| PCO       | procurement contracting officer                   |