



**DEPARTMENT OF DEFENSE**  
**Defense Contract Management Agency**

**INSTRUCTION**

**Contractor Purchasing System Reviews**

**Contracts Directorate**  
**OPR: DCMA-AQ**

**DCMA-INST 109**  
**November 28, 2012**

---

**1. PURPOSE.** This Instruction:

- a. Cancels DCMA Instruction, “Consent to Subcontract/Contractor Purchasing System Review (CPSR)” (Reference (a)) and establishes Contractor Purchasing System Reviews (CPSR) as a stand-alone Instruction.
- b. Is established in compliance with DoD Directive 5105.64 (Reference (b)).
- c. Implements Department policy pursuant to references on pages 3 and 4.
- 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 (e.g., International (DCMAI) and Specials Programs (DCMAS) activities).


**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.

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

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

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

**7. EFFECTIVE DATE.** By order of the Director, DCMA, this Instruction is effective immediately.

  
Timothy P. Callahan  
Executive Director  
Contracts

## TABLE OF CONTENTS

<b>REFERENCES</b> .....	3
<b>CHAPTER 1 - POLICY</b>	
1.1. Policy .....	5
<b>CHAPTER 2 – RESPONSIBILITIES</b>	
2.1. Contract Management Office (CMO) Contracts Director, or, the Director of Corporate/Divisional Administrative Contracting Officer Group .....	6
2.2. Administrative Contracting Officers.....	6
2.3. Contractor Purchasing System Review Group .....	7
<b>CHAPTER 3 – PROCEDURES</b>	
3.1. Determine Requirements for Contractor Purchasing System Reviews (CPSR).....	8
3.2. Request a CPSR .....	8
3.3. Participate in a CPSR.....	9
3.4. Obtain a CPSR Report .....	13
3.5. Make Initial System Status Determination .....	13
3.6. Make Final System Status Determination.....	15
3.7. Evaluate Contractor’s Corrective Action Plan (CAP) .....	16
3.8. Approve Previously Disapproved System .....	16
3.9. Perform Continuing Surveillance .....	17
3.10. Distribute Notifications.....	18
3.11. Maintain Records of CPSR Evaluations .....	18
3.12. Respond to Inquiries About Purchasing System Deficiencies.....	19
<b>APPENDIX</b>	
Appendix A. Contractor Purchasing System Reviews Process Flowchart .....	20
<b>GLOSSARY</b>	
Definitions.....	36
Acronyms.....	38

## REFERENCES

- (a) DCMA Instruction, "Consent to Subcontract/Contractor Purchasing System Review (CPSR)" hereby canceled
- (b) DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," September 27, 2000
- (c) DCMA-INST 710, "Managers' Internal Control Program," September 12, 2011
- (d) FAR 44.302(a), "Requirements"
- (e) DCMA-INST 131, "Contractor Business Systems," January 2012
- (f) DCMA-INST 134, "Boards of Review," October 15, 2012
- (g) DCMA-INST 126, "Contract Audit Follow-Up," December 2011
- (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) Chapter 85 of title 41, United States Code
- (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, section 14-300

- (ai) September 1994, *The Army Lawyer*, DA PAM 27-50-262, and article, “Asserting Government Control over Subcontractors”
- (aj) FAR 44.305.-3, “Withholding or Withdrawing Approval”
- (ak) DFARS 252.244-7001(b), “General” (Contractor Purchasing System Administration)
- (al) DFARS 252.244-7001(a), “General” (Contractor Purchasing System Administration)

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

1.1.5. If an ACO does not agree with a CPSR recommendation from a functional specialist, the matter shall be brought before an appropriate Board of Review.

1.1.6. If a contractor's purchasing system is determined to have significant deficiencies, the ACO is responsible for issuing a decision to disapprove a contractor's purchasing system.

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), Department of Defense Federal Acquisition Regulation Supplement (DFARS), and DCMA Instructions.

1.1.8. The ACO shall conduct annual surveillance and determine whether another purchasing system review is needed, at least every 3 years, after a contractor's purchasing system has been reviewed the first time.

1.1.9. 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).

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 requested and completed as governed by Reference (e) and DCMA-INST 134, "Boards of Review" (Reference (f)).

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) or ACO unless otherwise specified) shall:

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)) will likely exceed \$25 million in the next 12 months.

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

2.2.6. Make a determination of the adequacy of the contractor's purchasing system and grant approval or disapproval.

2.2.7. Withhold payments in accordance with contractual clauses, Defense Federal Acquisition Regulation Supplement (DFARS) regulations, and Reference (e), if a contractor's purchasing system is disapproved.

2.2.8. Subsequent to an initial review, make a determination every 3 years whether another purchasing system review is necessary as covered in FAR 44.302(b) (Reference (i)).

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).

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 and/or electronic files.

**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 adequacy of the contractor's purchasing system.

2.3.4. Conduct follow-up reviews to determine whether corrective actions have been implemented.

2.3.5. Assist the ACO in developing a surveillance plan.

## CHAPTER 3

### PROCEDURES

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

3.1.1. As directed in Reference (d), if the contractor's sales to the Government (excluding competitively awarded FFP contracts, competitively awarded Fixed Price with economic price adjustment contracts (FP w/EPA), 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.

3.1.1.1. Qualifying sales are prime contracts, subcontracts, and modifications except competitively awarded FFP, competitively awarded FP w/EPA, and FAR Part 12 (Reference (h)) commercial item contracts.

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 performing the first CPSR with a contractor, at least every 3 years the ACO shall determine whether another purchasing system review is necessary. However, a CPSR may be requested at any time the ACO determines there is a need.

### **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 functional specialists may request the assistance of technical specialists from the CMO, legal counsel, and DCAA.

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” (found in a link of the Contractor Purchasing System Review Resource Page).

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:

3.2.3.1.1. Have prime contract quality or delivery issues been attributed to subcontractor performance?

3.2.3.1.2. Have audit and/or pricing reports questioned or qualified subcontract costs as unsupported?

3.2.3.1.3. Have advance notifications and/or consent requests been incomplete or insufficient?

3.2.4. The CPSR Group will review the Risk Assessment and schedule a purchasing system review giving priority to the highest risks identified.

**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 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.

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 will be asked to provide support for the review.

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 that:

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 competed sources as to:

3.3.6.8.1. Fair and reasonable pricing for proposed quality, delivery, and technical capabilities; and

3.3.6.8.2. The financial capabilities of competing vendors, if needed.

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 appropriate cost or price analysis and technical evaluation for each subcontractor and supplier proposal or quote.

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 was a process to ensure proper type of contract selection that prohibits cost-plus-a-percentage-of-cost subcontracts.

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.

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 appropriate Director (paragraph 2.1. above).

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 enhancing the system's overall efficiency and effectiveness.

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

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 completion of the report preparation process.

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 contracting officer to understand the deficiencies.

3.4.1.1. When significant deficiencies are identified in a business system, the functional specialist (e.g. CPSR team captain) shall prepare a complete draft Level III or IV Corrective Action Request (CAR) and attach it to their Business System Analysis Summary (BSAS). The CAR shall be printed, marked "draft," and sent to the cognizant contracting officer. NOTE: The CAR shall not be released or submitted in the CAR eTool at this time.

3.4.2. System status letters for the ACO's use can be requested from the CPSR Group. The letters have been approved for legal sufficiency and will accompany the official report.

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 adequacy 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)).

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. See the Resource Page of this Instruction for templates.

3.5.2.1.1. In accordance with FAR 44.305-2(a) (Reference (r)), the ACO's approval letter shall include:

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 is adequate and approved.

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

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

3.5.2.1.1.6. 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.

3.5.2.1.1.7. A statement that system approval may be withdrawn at any time at the ACO's discretion.

3.5.2.1.1.8. 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.

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 failure to comply with the system criteria set forth in paragraph 3.3.6.), the ACO shall issue an initial determination to the contractor that:

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 corrective action plan (CAP)), and make a final determination.

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 a 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)).

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 (in writing) that the purchasing system is adequate and approved. The ACO shall follow the guidance found in paragraph 3.5.2.1. regarding the approval letter.

3.6.3.1. When the purchasing system is found adequate, the ACO shall not finalize the Level III or IV CAR, but instead shall cancel the CAR in the CAR eTool.

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 CBSR Panel prior to notifying the contractor (in writing) that the system is disapproved. If the Panel recommends approval of the system, yet the ACO disagrees with the recommendation, the ACO shall document his or her reason for not following the advice and follow guidance found in Reference (e).

3.6.5. After receiving a "withhold approval" recommendation from a CBSR 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 CO shall finalize the Level III or IV CAR in the CAR eTool and attach it to the final determination in accordance with the applicable system clause.

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.

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 (CAP).** After an ACO requests a CAP, the ACO shall evaluate the subsequent CAP provided by a contractor.

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

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 make 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.

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 and approval of the contractor's purchasing system.



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 new system review to verify the contractor has corrected the deficiencies and implemented ACO recommendations.

3.8.2. If the CPSR Group is not able to promptly perform follow-up review activity, and the ACO has a reasonable expectation (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.

3.8.3. When the ACO requests a new system review (see paragraph 3.8.1.), the CPSR Group will conduct a follow-up review after a sufficient number of transactions have been issued under the contractor's revised purchasing policies and procedures. This will ensure that a representative sample of transactions can be tested after implementation of the corrected/revised practices.

3.8.4. If the evaluation (see paragraph 3.8.3.) 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.

3.8.5. If the ACO determines that the contractor's corrective actions have only corrected some 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 partial corrections (effectively implemented) compared to all corrections covered in the CAP.

3.8.6. If the ACO determines that the system is still not adequate, the ACO shall notify the contractor (in writing) 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.

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,

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

3.9.1. Maintain a sufficient level of surveillance between CPSR evaluations to ensure that the contractor is effectively managing its purchasing program.

3.9.2. After a CPSR, and with the assistance of the CPSR review team leader, 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.

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 activity relating to a contractor's purchasing system. Records are to be maintained in paper and/or electronic files. See DCMA-INST 809, "Records Management" (Reference (aa)), for more details such as length of records retention.

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

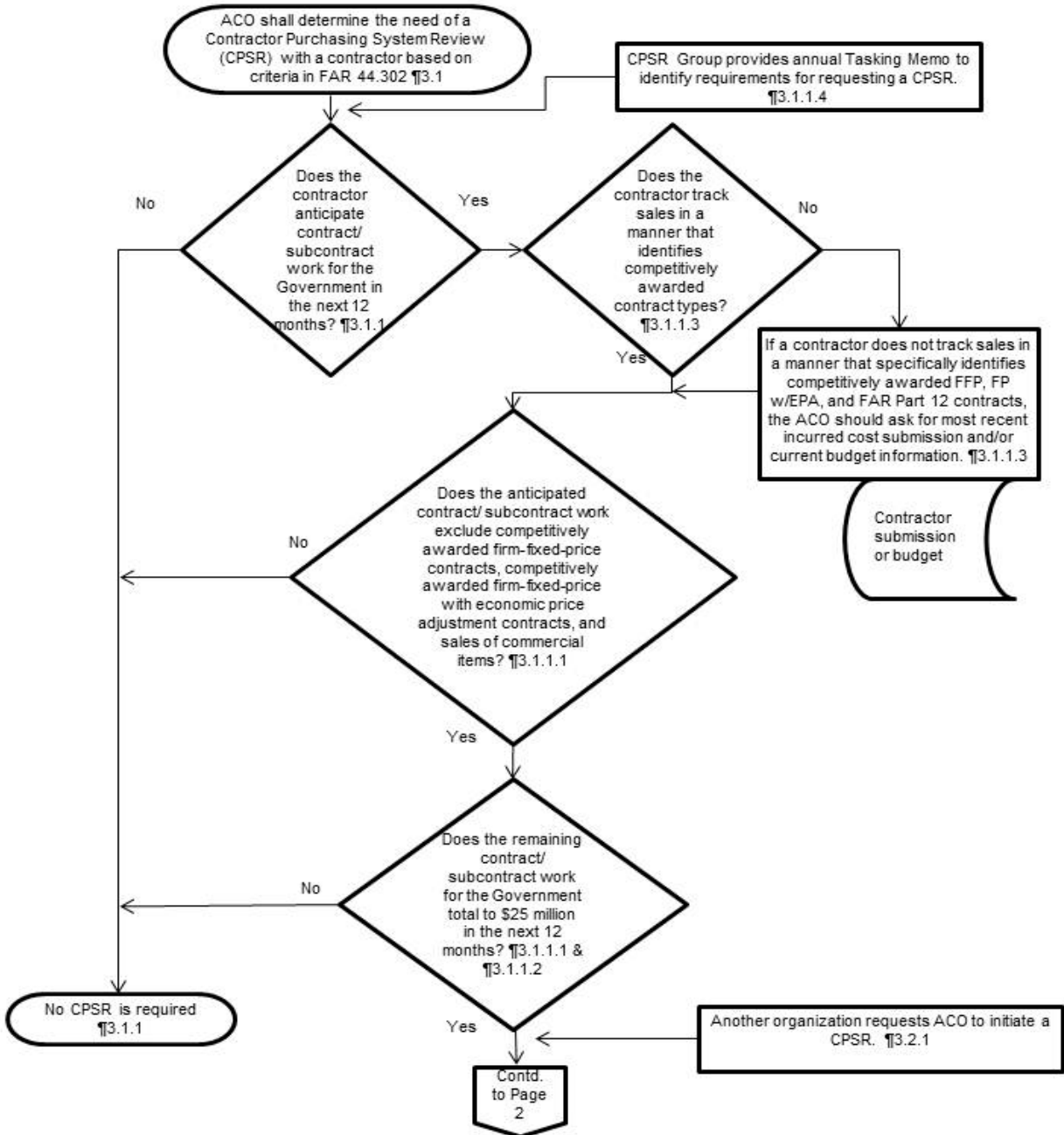
**3.12. RESPOND TO INQUIRIES ABOUT PURCHASING SYSTEM DEFICIENCIES.**

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.

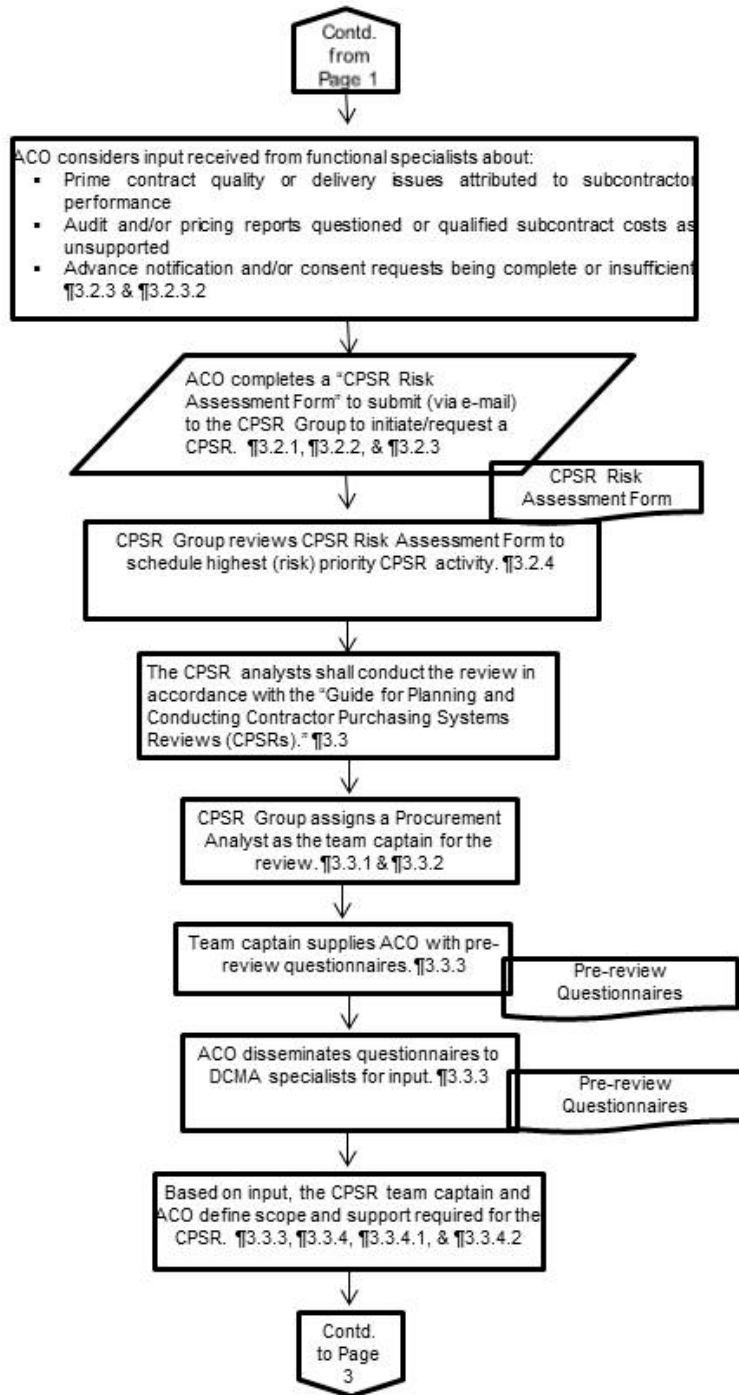
# APPENDIX A

## CONTRACTOR PURCHASING SYSTEMS REVIEWS PROCESS FLOWCHART

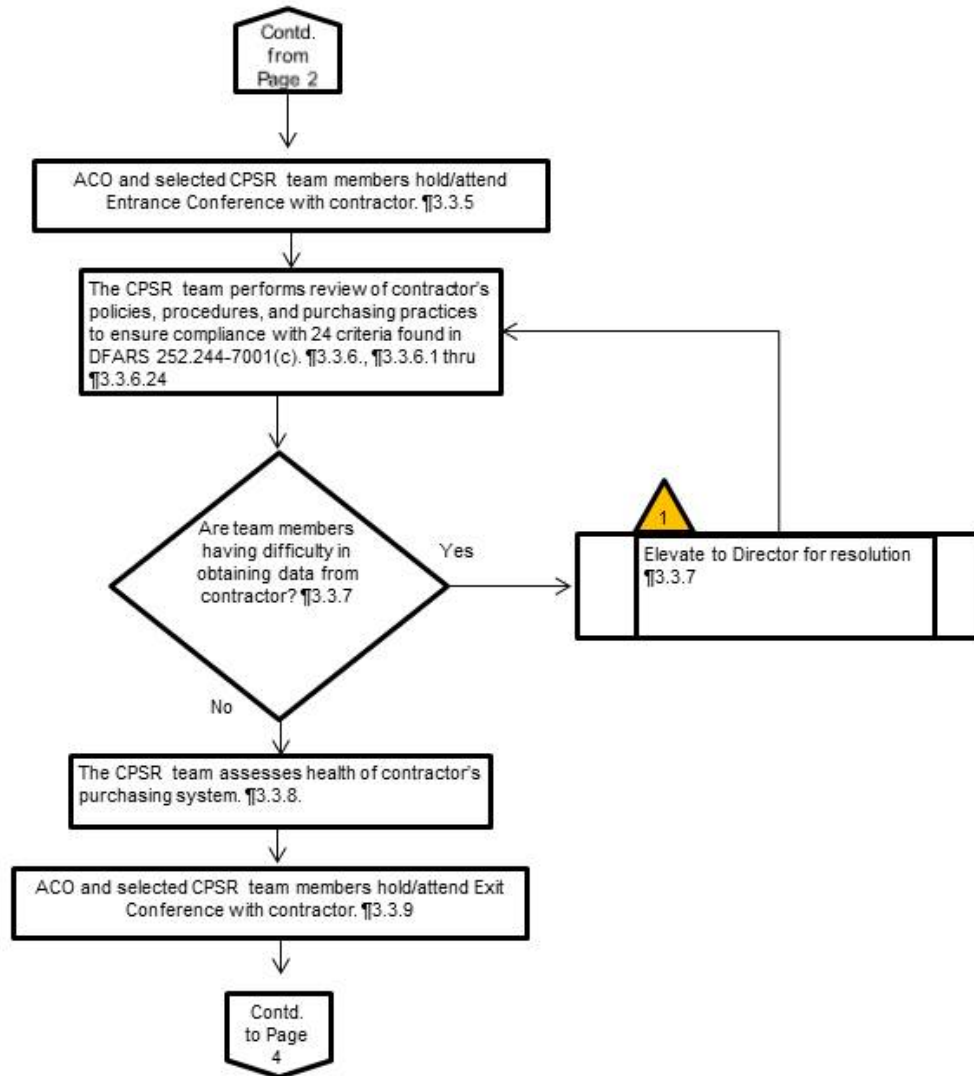
Contractor Purchasing System Reviews Process Flowchart




## Contractor Purchasing System Reviews Process Flowchart

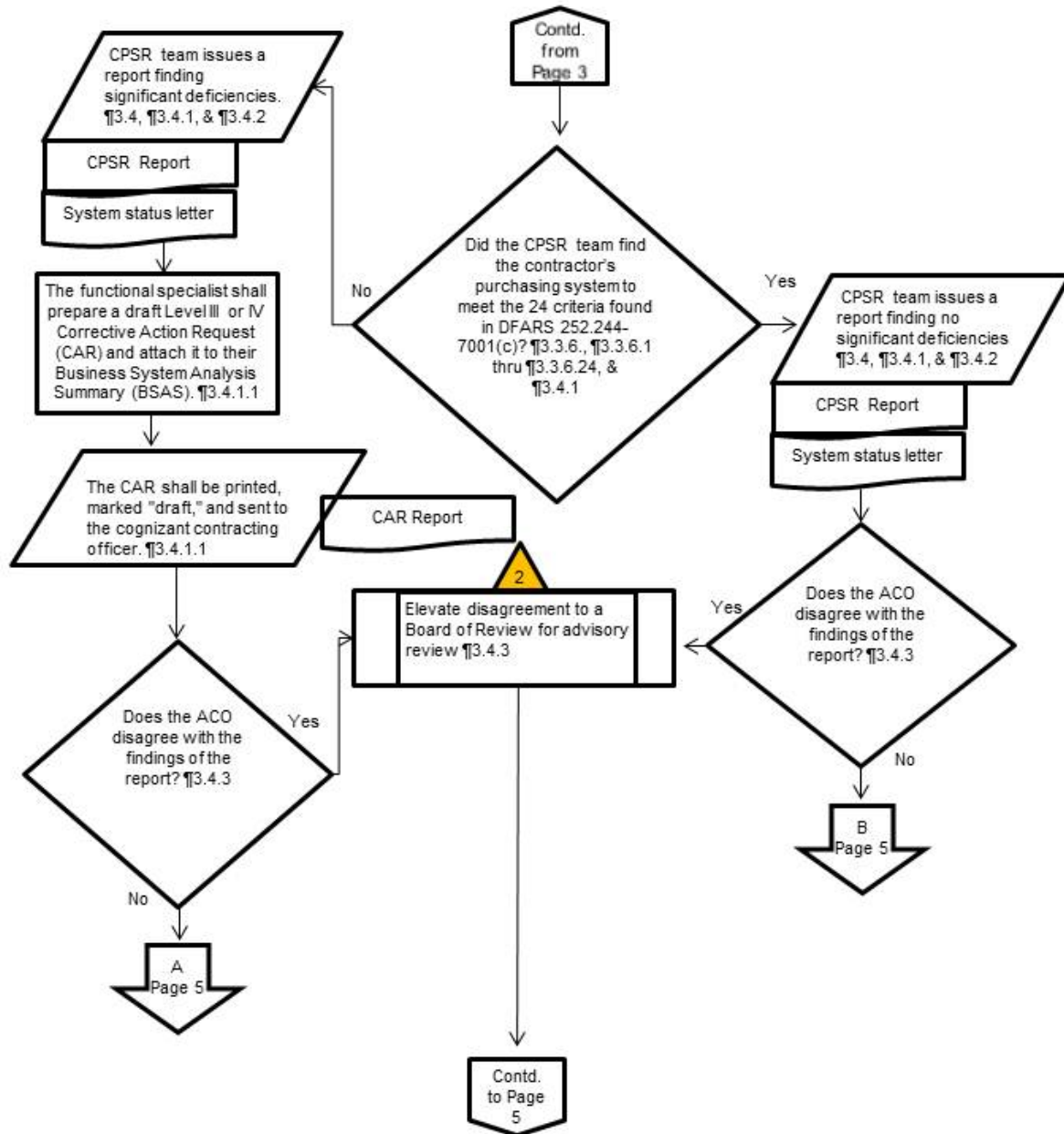


## Contractor Purchasing System Reviews Process Flowchart



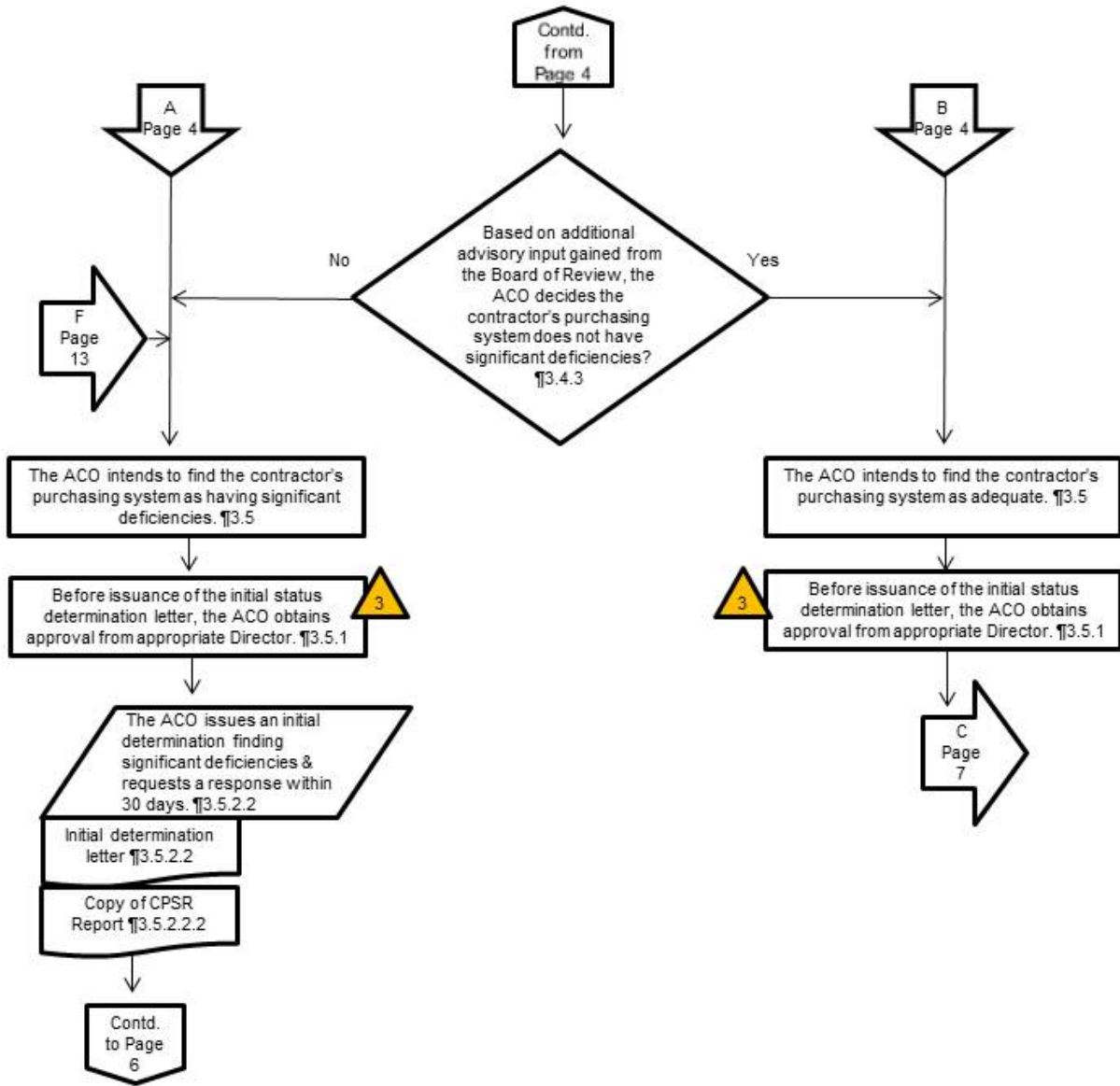
 - Find referenced key control number notes at end of flowchart

## Contractor Purchasing System Reviews Process Flowchart



- Find referenced key control number notes at end of flowchart

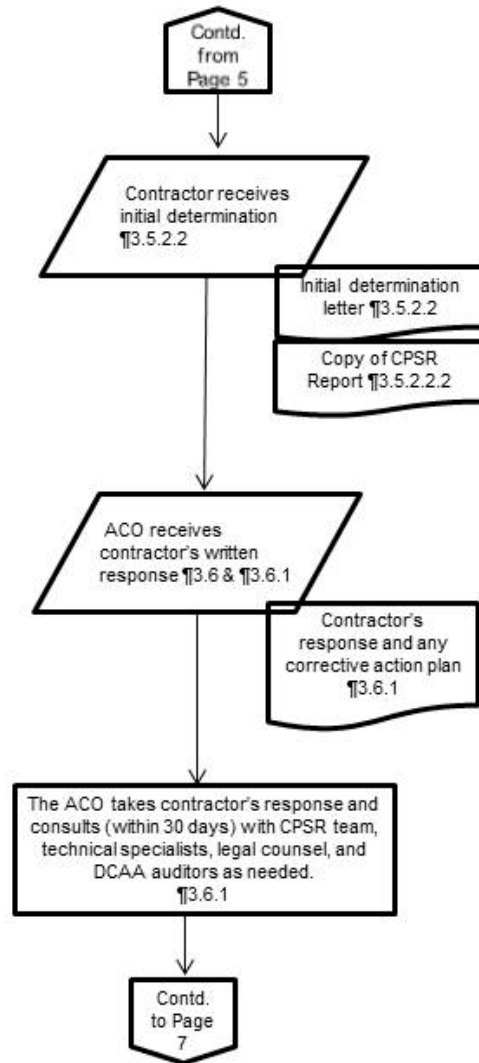
## Contractor Purchasing System Reviews Process Flowchart



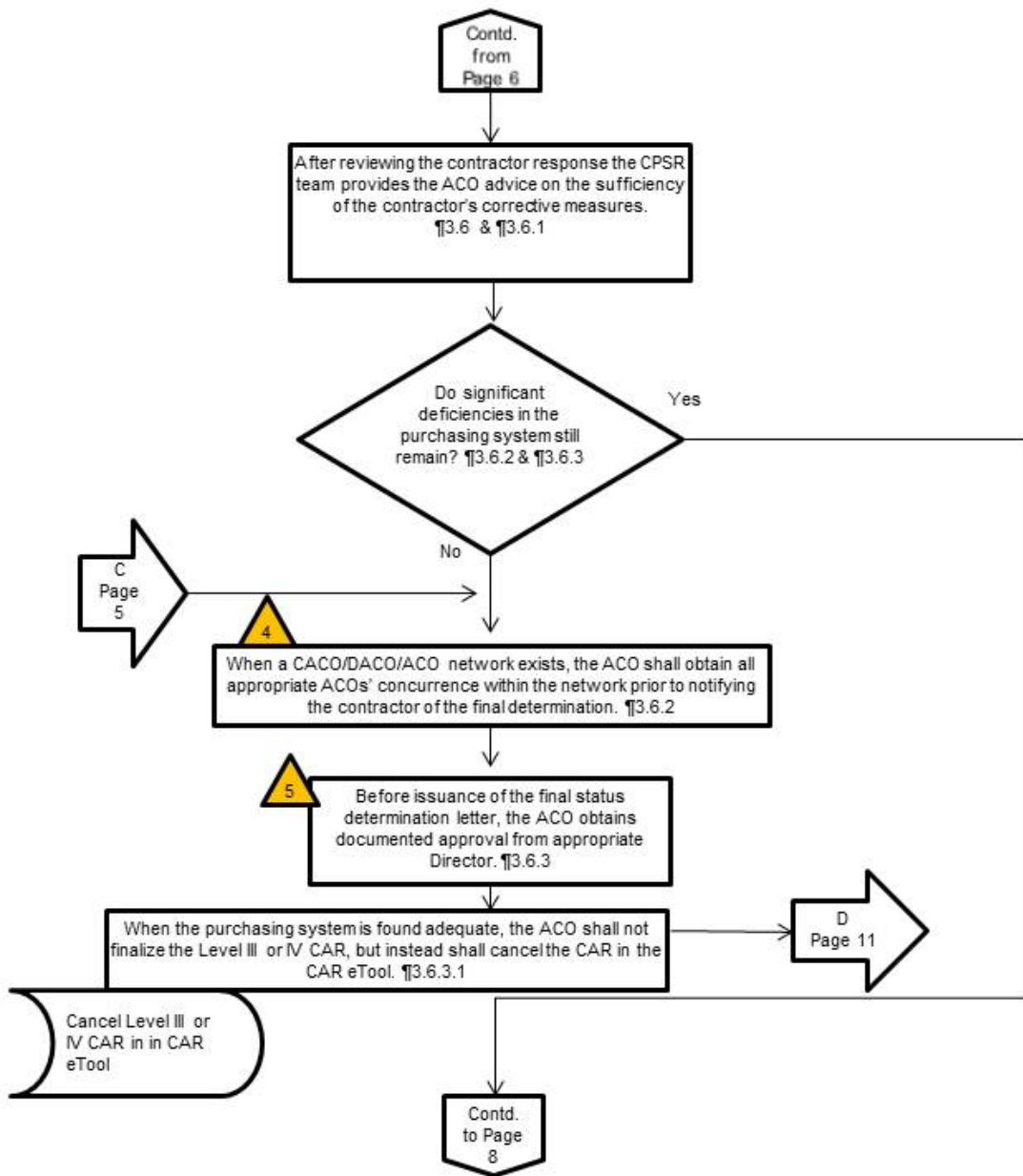
- Find referenced key control number notes at end of flowchart



## Contractor Purchasing System Reviews Process Flowchart

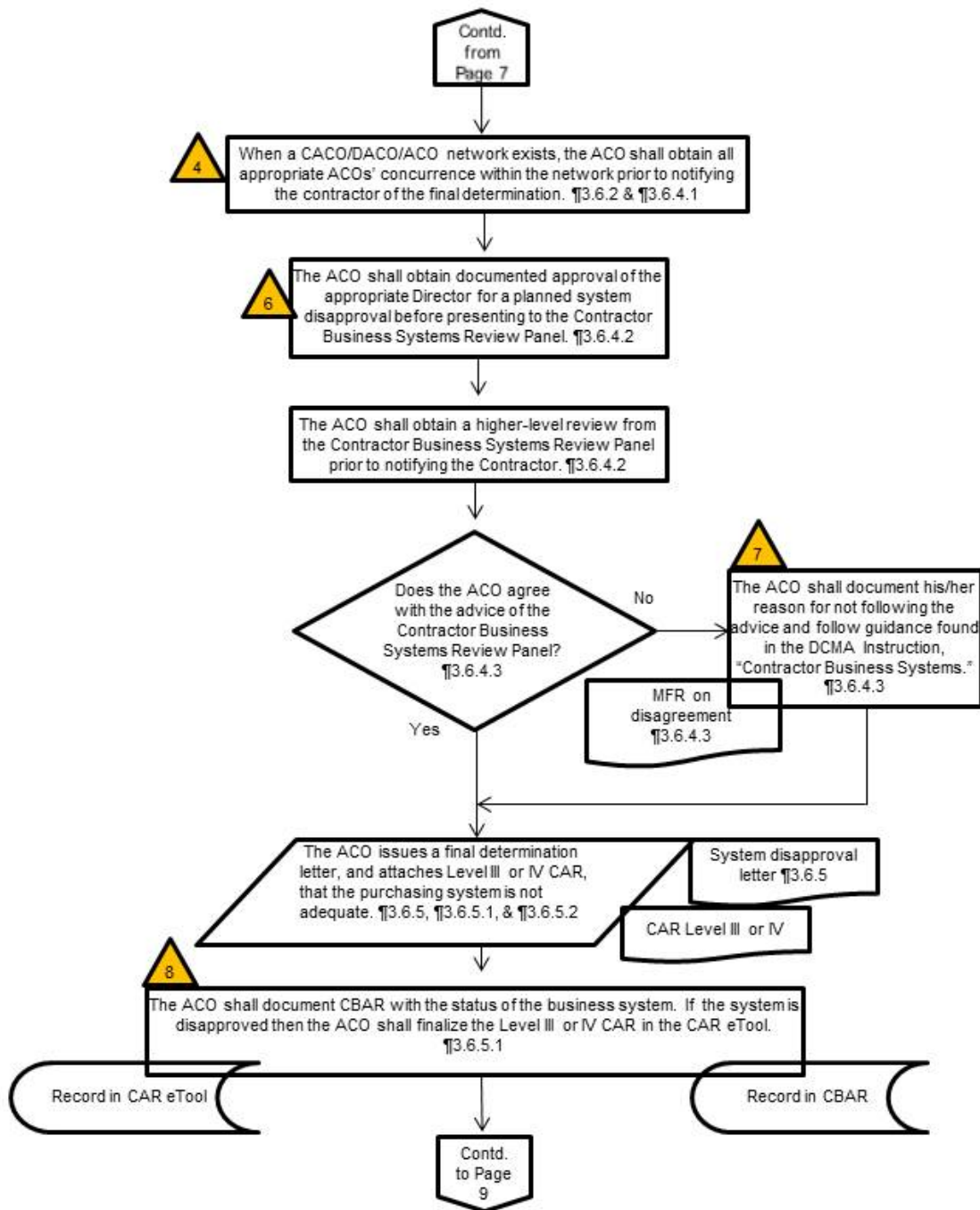


## Contractor Purchasing System Reviews Process Flowchart



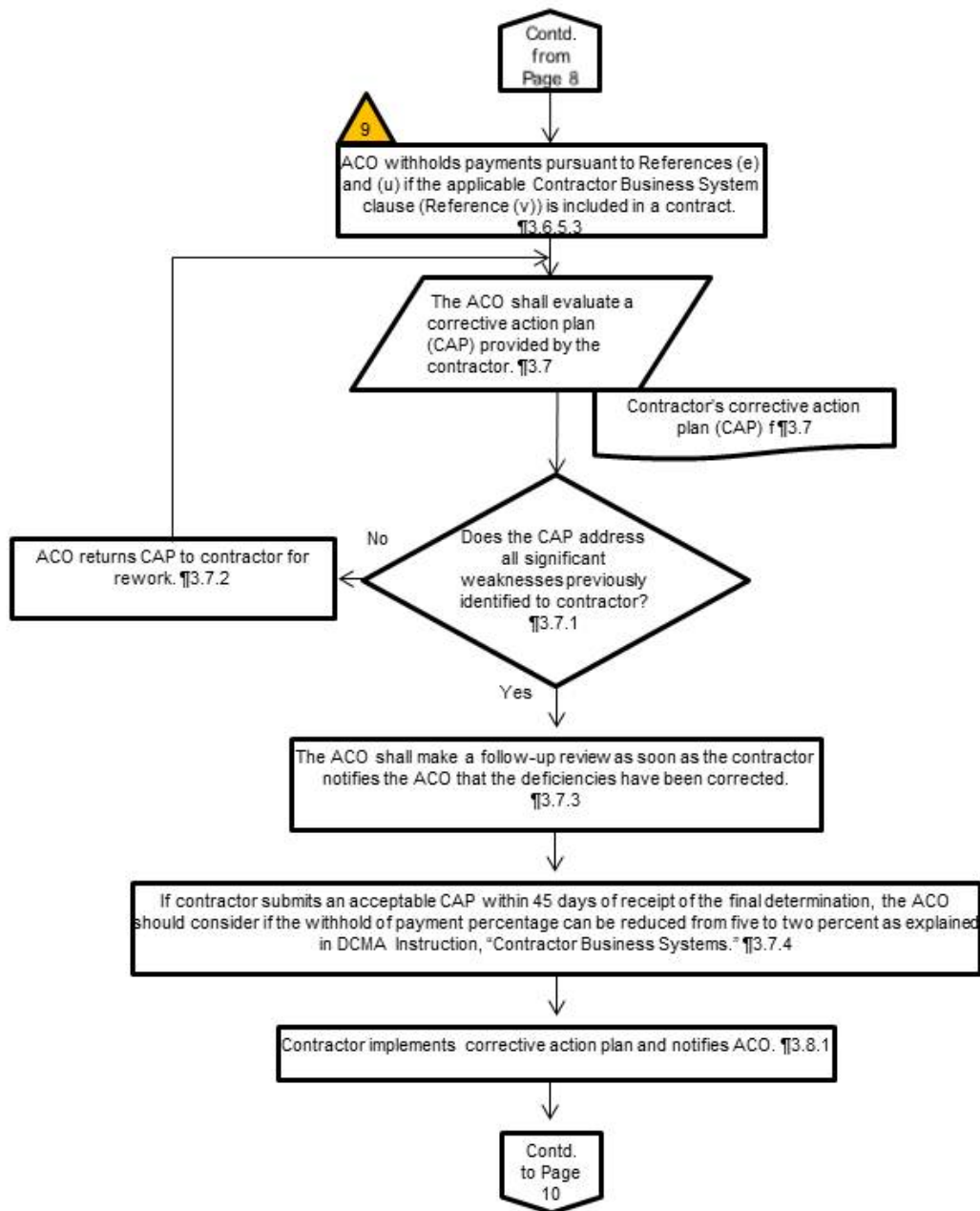
- Find referenced key control number notes at end of flowchart

## Contractor Purchasing System Reviews Process Flowchart



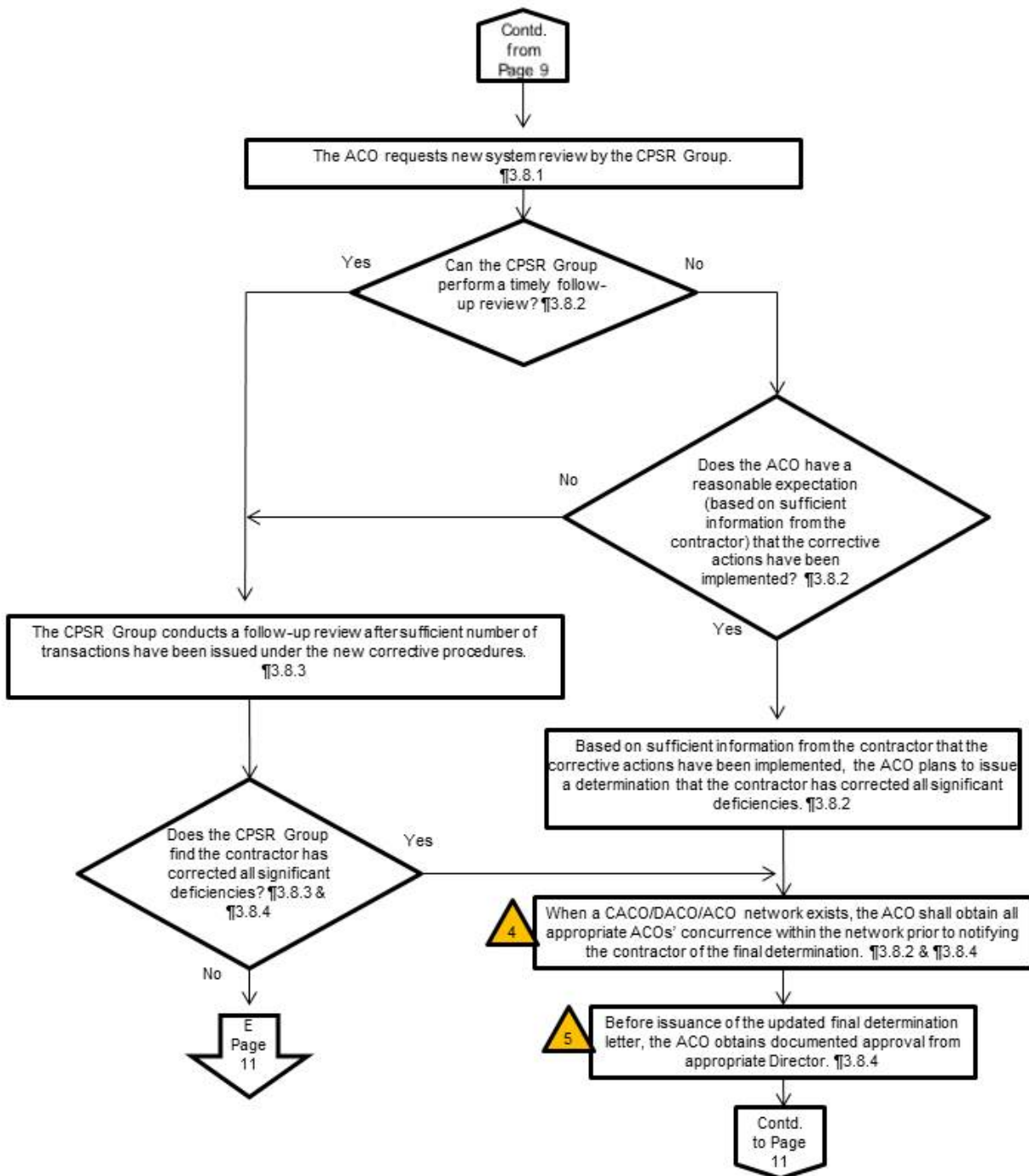
- Find referenced key control number notes at end of flowchart

## Contractor Purchasing System Reviews Process Flowchart



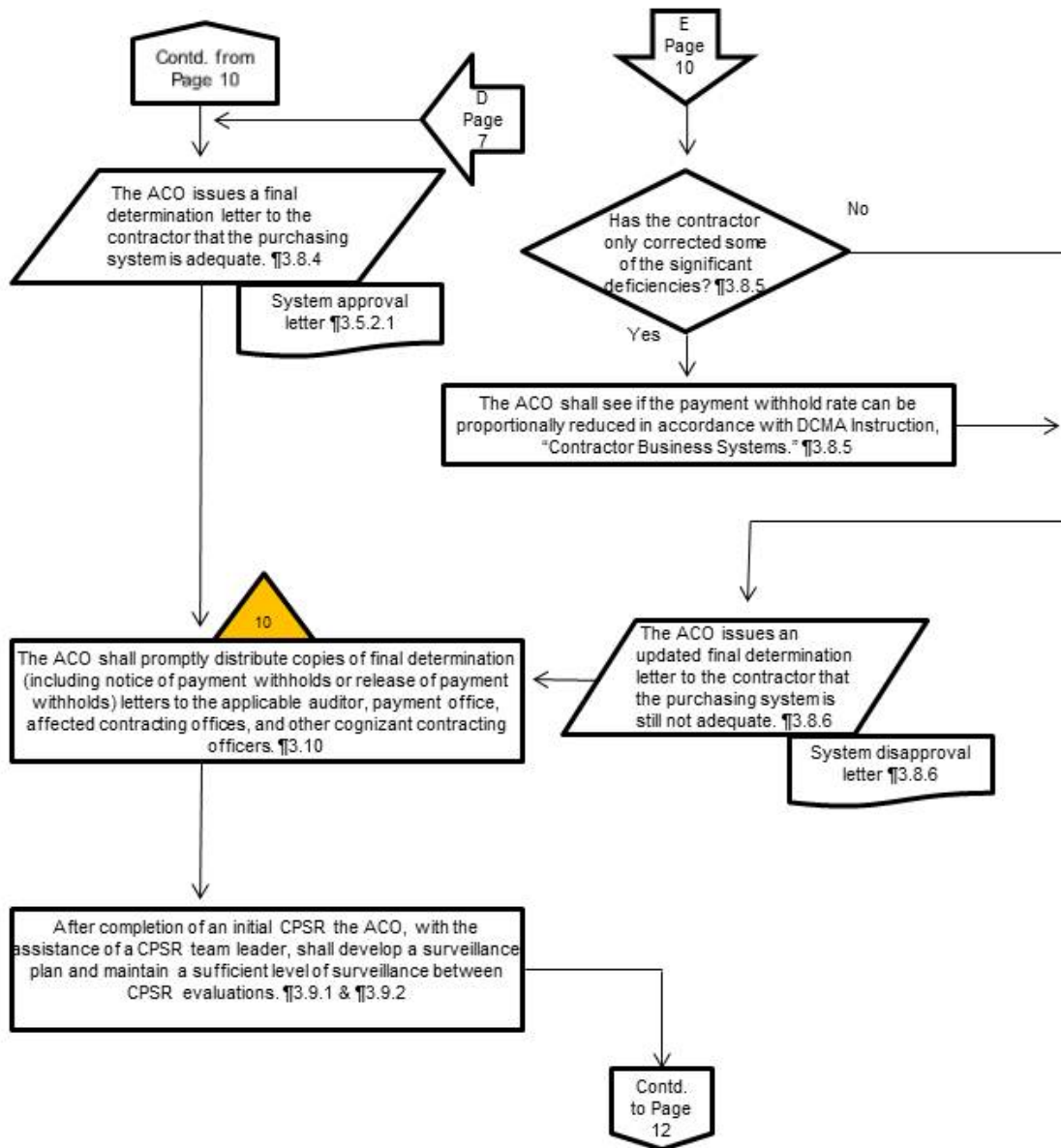
- Find referenced key control number notes at end of flowchart


## Contractor Purchasing System Reviews Process Flowchart



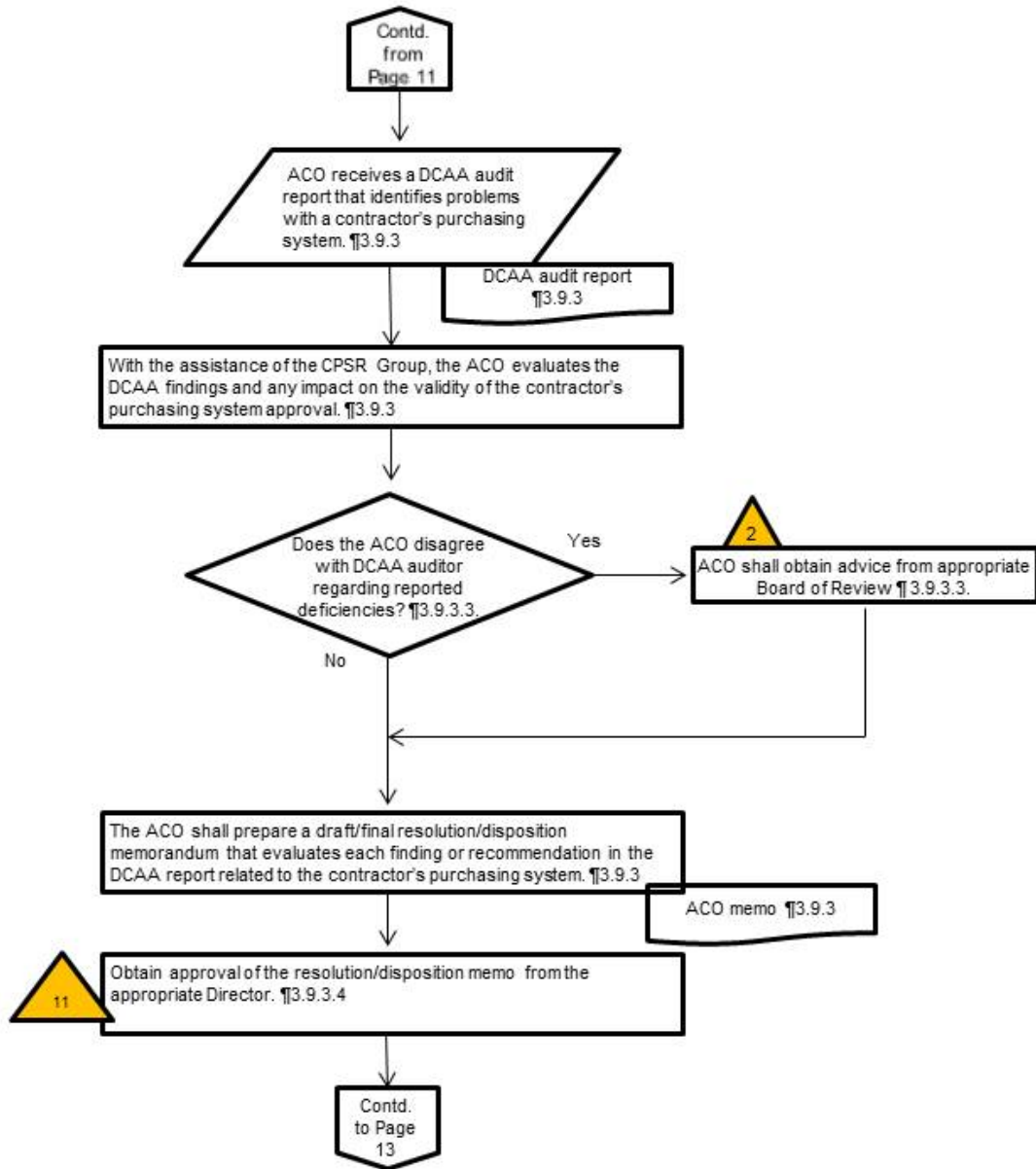
- Find referenced key control number notes at end of flowchart

## Contractor Purchasing System Reviews Process Flowchart



 - Find referenced key control number notes at end of flowchart

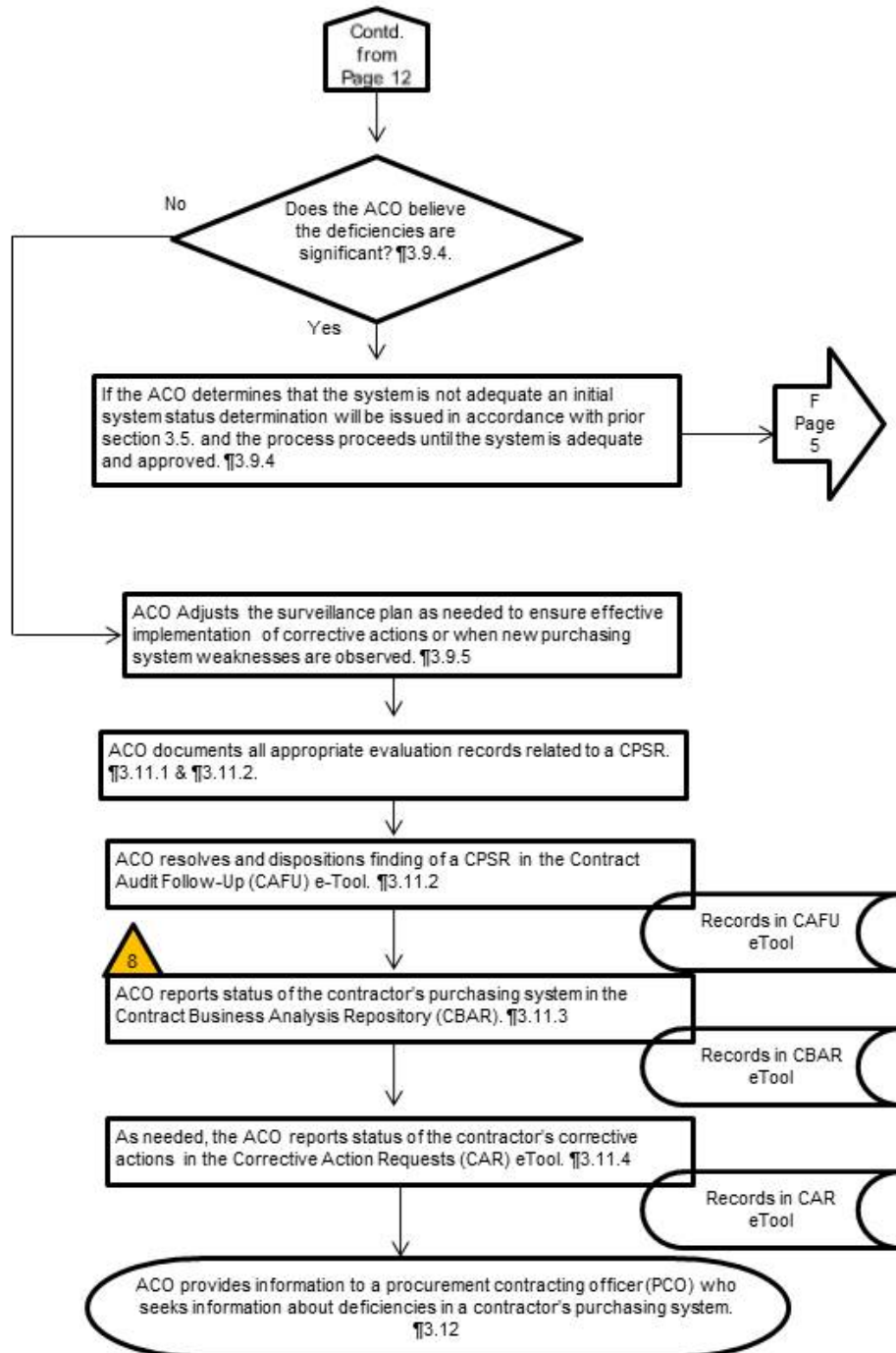
## Contractor Purchasing System Reviews Process Flowchart



- Find referenced key control number notes at end of flowchart



## Contractor Purchasing System Reviews Process Flowchart



- Find referenced key control number notes at end of flowchart



## 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

## GLOSSARY

### DEFINITIONS

**Cross-servicing Arrangements.** This phrase of “cross-servicing arrangements” found at Reference (ac) might apply for 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.

**Debarred or Suspended Subcontractors.** Debarred subcontractors are subcontractors to a prime contractor who have been excluded by a debaring official (under Reference (ad)) from Government contracting and Government-approved subcontracting for a reasonable and specified period. Restrictions on subcontracting with suspended subcontractors are also addressed in Reference (ad).

**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. Despite the lack of contract privity with subcontractors, through flow-down clauses, the Government can react,

when needed, by directing the prime contractor to incorporate into subcontracts clauses contained in the prime contract. See Reference (ai).

**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.** These are deficiencies in a contractor's purchasing system where the ACO finds recurring noncompliances and/or material violations of criteria covered in References (aj), (ak), and (k). Significant deficiency means 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 (al).

## 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