

CONTRACTOR PURCHASING SYSTEM REVIEW

# CPSR AUDIT GUIDEBOOK

*A Practical Guide for Government Contractors  
Preparing for DCMA Purchasing System Reviews*



NAVIGATE YOUR CPSR WITH CONFIDENCE



# Introduction

Government contractors operating in the federal marketplace frequently rely on subcontractors to deliver products, technologies, and services necessary to perform complex government programs. Because subcontracting activity often represents a significant portion of contract performance, the federal government requires assurance that contractors manage procurement activities responsibly, competitively, and in accordance with federal acquisition regulations.

The Contractor Purchasing System Review (CPSR) is the government's primary mechanism for evaluating whether a contractor's purchasing system meets these standards.

Conducted primarily by the Defense Contract Management Agency (DCMA), a CPSR evaluates whether a contractor's purchasing policies, procedures, and procurement practices provide reasonable assurance that subcontracting decisions protect government interests and ensure fair and reasonable pricing.

For growing government contractors, a CPSR represents a major milestone in organizational maturity. Companies that successfully pass a CPSR demonstrate to the government that their procurement systems are disciplined, compliant, and capable of responsibly managing subcontractor networks.

This guidebook provides government contractors with a practical overview of the CPSR process, including when CPSRs occur, what government auditors examine, and how contractors can prepare their purchasing systems for successful review.

## The Government Contractor Business Systems Framework

The CPSR is one component of the Department of Defense contractor business systems oversight framework.

Under the DFARS Business Systems Rule, the government monitors several contractor systems that directly affect the management of government funds. These systems include:

- Accounting System
- Estimating System
- Purchasing System
- Material Management and Accounting System (MMAS)
- Earned Value Management System
- Property Management System

Each system may be subject to government evaluation depending on the contractor's business profile and the complexity of its government programs.

The purchasing system is evaluated through the Contractor Purchasing System Review.

Because procurement activities interact with accounting, estimating, and program management functions, weaknesses in procurement practices can introduce risk throughout the contractor's

operational structure. For this reason, CPSR readiness should be viewed as part of a broader compliance framework rather than an isolated audit preparation exercise.

## Regulatory Foundation of CPSR

The Contractor Purchasing System Review is grounded in several regulatory authorities within the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS).

Key regulatory authorities include:

- FAR Part 44 – Subcontracting Policies and Procedures
- DFARS 252.244-7001 – Contractor Purchasing System Administration
- DFARS Business Systems Rule

These regulations establish the standards used by the Defense Contract Management Agency when evaluating contractor purchasing systems.

The CPSR process is guided operationally by the DCMA CPSR Guidebook, which provides auditors with detailed procedures for reviewing contractor procurement practices and assessing system adequacy.

Together, these authorities define the regulatory expectations contractors must meet in order to obtain and maintain an approved purchasing system.

## Why CPSR Exists

The federal government relies heavily on prime contractors to manage complex networks of subcontractors supporting defense and civilian programs.

Because subcontractors are paid with government funds, the government must ensure that contractors procure goods and services responsibly and transparently.

The CPSR process therefore seeks to confirm that contractors:

- Promote competition whenever practical
- Perform adequate price analysis
- Flow down required contract clauses
- Maintain procurement documentation supporting decisions

Through these mechanisms, the CPSR protects taxpayer funds while preserving the integrity of the federal acquisition system.

# When CPSR Is Required

CPSRs are generally conducted when a contractor's sales to the government exceed approximately **\$50 million annually** and the contractor performs significant subcontracting.

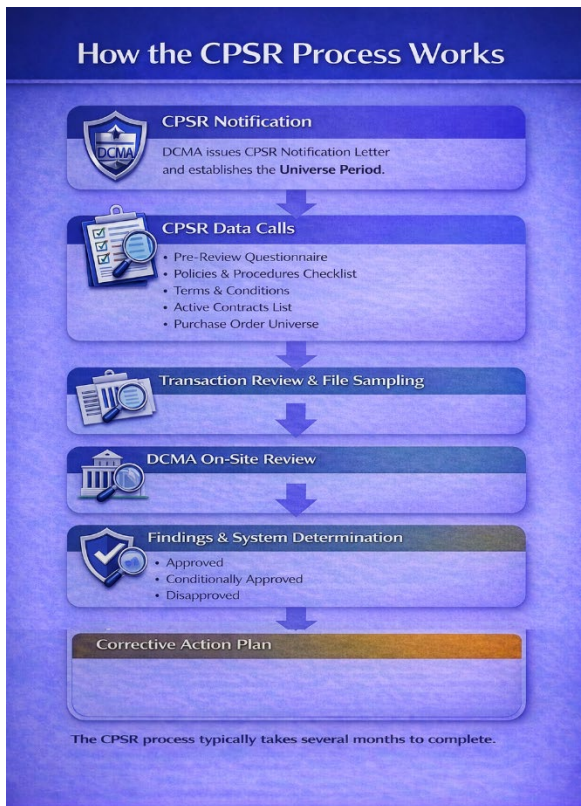
However, CPSRs are not triggered solely by revenue thresholds. The decision to conduct a CPSR is ultimately **risk-based**. The government may also initiate a review when the contractor's risk profile warrants additional oversight.

Contractor Risk Factors considered by DCMA often include:

- Volume of subcontracting activity
- Complexity of government programs
- Organizational growth
- Prior audit findings
- Procurement risk indicators

Contractors approaching the \$50 million threshold should begin preparing their purchasing systems well in advance of a CPSR.

## How the CPSR Process Works



Most CPSRs follow a consistent sequence of events. Understanding these stages helps contractors prepare their organizations, procurement teams, and supporting documentation well in advance of the review.

In general, a CPSR unfolds through the following stages:

1. CPSR Notification
2. Data Calls
3. Transaction Review and File Sampling
4. DCMA On-Site Review
5. Findings and System Determination
6. Corrective Action Plan

### 1. CPSR Notification

The process begins when DCMA formally notifies the contractor that a CPSR will be conducted. This notification occurs through the CPSR Notification Letter.

The notification letter serves several important purposes. First, it confirms the anticipated dates for the review that were previously coordinated between DCMA and the contractor. Second, it establishes the **“Universe Period”** applicable to the review. The universe period defines the timeframe from which procurement transactions will be drawn for sampling and evaluation.

The notification letter also outlines the information and documentation that DCMA expects the contractor to provide in preparation for the review. These requests initiate the next phase of the CPSR process commonly referred to as **CPSR Data Calls**.

## **2. CPSR Data Calls**

Following the notification letter, DCMA issues a series of requests commonly referred to as CPSR Data Calls. DCMA requests a series of documents and datasets designed to help auditors understand the contractor's purchasing system and prepare for the detailed review.

These requests typically include:

- Pre-Review Questionnaire
- DCMA CPSR Policies and Procedures Checklist
- Copies of Purchasing Policies and Procedures
- Terms and Conditions with FAR/DFARS Flowdowns
- Government Contracts Listing (Active Contracts List)
- Purchase Order Universe

### **1) Pre-Review Questionnaire**

The Pre-Review Questionnaire collects administrative and macro-level information about the contractor's organization and purchasing system. This questionnaire generally requests information related to the contractor's organizational structure, procurement personnel, subcontracting activity, internal controls, and other operational details relevant to the purchasing system.

The purpose of the questionnaire is to provide DCMA auditors with a foundational understanding of how the contractor's procurement function operates.

### **2) DCMA CPSR Policies and Procedures Checklist**

One of the most important documents requested during the data call phase is the DCMA CPSR Policies and Procedures Checklist.

This checklist identifies the subject matter areas within the scope of the CPSR and references the applicable FAR and DFARS provisions associated with each area.

The contractor's task when completing this checklist is to map each CPSR requirement to the specific section and page reference within the contractor's procurement policies or procedures where that requirement is addressed. This mapping exercise allows DCMA auditors to quickly determine whether the contractor's documented policies address the regulatory criteria expected in a compliant purchasing system.

### **3) Copies of Purchasing Policies and Procedures**

DCMA also requests copies of the contractor's purchasing policies and procedures. These documents form the foundation of the contractor's purchasing system and provide auditors with insight into how procurement decisions are governed within the organization.

The policies and procedures are reviewed to determine whether they address key regulatory requirements such as competition, price analysis, subcontract management, and documentation standards.

#### **4) Terms and Conditions and Clause Flowdowns**

DCMA will also request copies of the contractor's standard purchasing Terms and Conditions, including all versions used in procurement transactions supporting U.S. Government contracts.

This request typically includes:

- Standard purchase order terms and conditions
- Subcontract terms and conditions
- Flowdown clause matrices or appendices
- FAR and DFARS flowdown provisions applicable to subcontractors

These documents allow auditors to verify that required clauses are properly flowed down to subcontractors as required by federal regulations.

#### **5) Active Contracts List**

Another key data request is the contractor's Government Contracts Listing, often referred to as the Active Contracts List.

This list provides DCMA with information about the contractor's current government contracts and is used to perform the FAR 44.3 qualifying contracts analysis. This analysis helps DCMA determine whether the contractor meets the regulatory criteria that justify performing a CPSR.

#### **6) Purchase Order Universe**

The final major data request typically involves the contractor providing the Purchase Order Universe, often referred to simply as the PO Universe.

This dataset contains all procurement transactions issued during the defined universe period. The information generally includes purchase order numbers, supplier names, contract numbers, dollar values, and other procurement details.

DCMA uses this dataset to select the specific procurement files that will be reviewed during the CPSR.

### **3. Transaction Review and File Sampling**

DCMA analyzes the purchase order universe and selects a representative sample of procurement transactions for detailed review.

This sampling allows auditors to examine how procurement decisions are documented and whether purchasing practices align with regulatory expectations.

The selected procurement files form the primary evidence used to evaluate whether the contractor's purchasing system complies with CPSR requirements.

#### **4. DCMA On-Site Review**

During the on-site review phase, auditors examine selected procurement files and interview procurement personnel.

The objective is to determine whether procurement decisions demonstrate:

- adequate competition
- proper price analysis
- appropriate clause flowdowns
- compliant documentation

The on-site review allows DCMA to assess not only the contractor's documented policies but also how those policies are implemented in practice.

#### **5. Findings and System Determination**

After completing the file review and interviews, DCMA auditors evaluate the results of the review and prepare formal findings.

These findings identify areas where the contractor's purchasing system does not fully comply with CPSR requirements. Based on the severity and number of findings, DCMA will determine whether the contractor's purchasing system is:

- **Approved**
- **Conditionally Approved**
- **Disapproved**

The system determination is documented in the official CPSR report issued by DCMA.

#### **6. Corrective Action Plan**

If deficiencies are identified during the review, the contractor must submit a Corrective Action Plan (CAP) describing how the identified issues will be addressed.

The corrective action plan outlines the steps the contractor will take to address identified weaknesses in the purchasing system. This may include revising policies, improving procurement documentation practices, enhancing internal controls, or providing additional training to procurement personnel.

The contractor typically submits the corrective action plan to DCMA for review and approval.

Implementation of the corrective actions may be required before the purchasing system can receive final approval.

# Procurement Files: The Core of CPSR

At the center of every CPSR is the procurement file.

Each procurement file must demonstrate how a procurement decision was made and must contain sufficient documentation to support compliance with regulatory requirements.

Typical procurement files include documentation such as:

- Purchase requisitions
- Solicitations issued to suppliers
- Supplier proposals or quotations
- Competition documentation
- Price analysis documentation
- Source selection decisions
- Purchase orders or subcontracts
- Required clause flowdowns

Auditors examine these files to determine whether contractors sought competition, documented supplier evaluations, justified sole-source decisions, and demonstrated price reasonableness.

Incomplete or inconsistent procurement files represent one of the most common causes of CPSR findings.

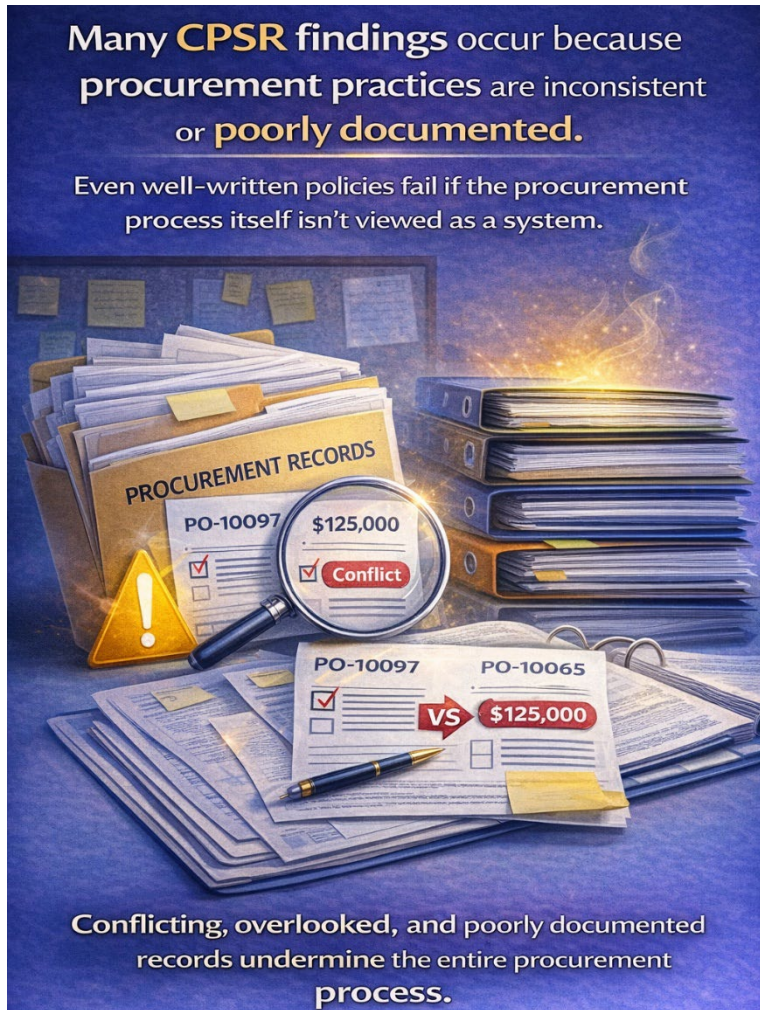


## Why Documentation Failures Cause CPSR Findings

Many CPSR findings occur not because contractors lack written policies or procedures, but because the procurement process is not managed as a coherent system of records.

In many organizations, procurement policies are well written and procurement personnel generally understand the expectations associated with competition, price analysis, and supplier selection. However, the documentation created during the procurement process often develops inconsistently across different transactions, individuals, or departments.

As a result, procurement files may contain incomplete documentation, conflicting records, or missing evidence supporting key purchasing decisions.



When DCMA auditors review procurement files, they are not evaluating the contractor's intentions, they are evaluating the documented evidence supporting each procurement action. If the file documentation does not clearly demonstrate how a procurement decision was made, auditors must assume the decision cannot be supported.

Missing, incomplete or inconsistent file data creates the appearance that procurement decisions were made without adequate analysis or oversight, even when the underlying procurement activity may have been conducted appropriately.

For this reason, contractors must view the procurement process as a system of interrelated records, rather than a collection of independent documents. Each procurement file must tell a complete and internally consistent story describing how the procurement was conducted, how suppliers were evaluated, and how price reasonableness was determined. When procurement documentation is structured in this way, auditors can quickly trace the logic behind purchasing decisions and verify compliance with CPSR requirements.

Conversely, when documentation is incomplete, inconsistent, or poorly organized, even well-managed procurement processes may result in CPSR findings.

Organizations that successfully pass CPSRs recognize that documentation discipline is as important as procurement discipline. Policies and procedures establish expectations, but it is the procurement record that ultimately demonstrates compliance.

## The Anatomy of a Defensible Procurement File

A defensible procurement file tells the story of the procurement decision and a properly documented file typically includes:

- Procurement Initiation / Requisition
- Solicitation and Supplier Outreach
- Supplier Proposals or Quotations
- Price Analysis or Cost Analysis

- Source Selection Documentation
- Purchase Order or Subcontract Award
- Contract Clause Flowdowns
- Procurement Approvals

When these documents are organized coherently, the procurement file provides a clear narrative of how the procurement decision was reached.

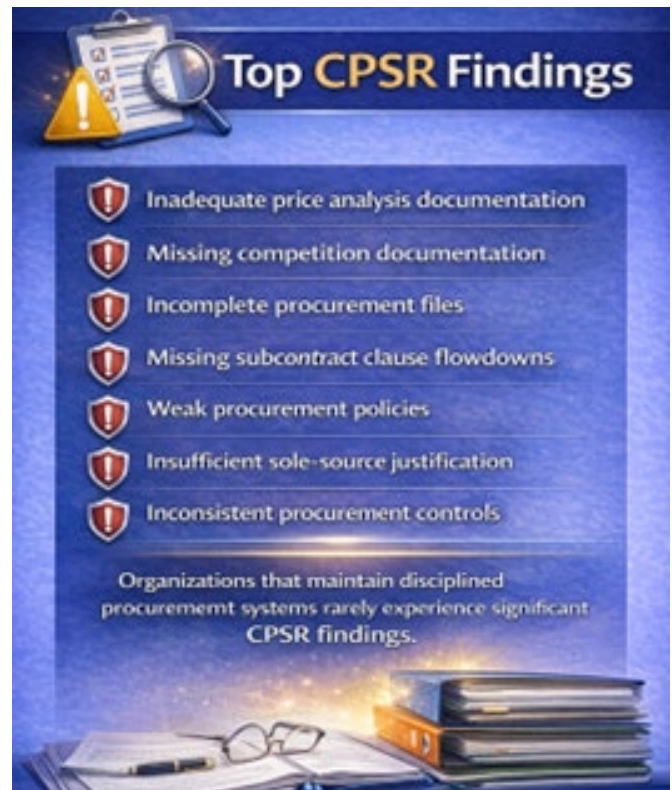
## Top CPSR Findings

Many CPSR findings occur because procurement practices are inconsistent or poorly documented.

Common findings include:

- Inadequate price analysis documentation
- Missing competition documentation
- Incomplete procurement files
- Missing subcontract clause flowdowns
- Weak procurement policies
- Insufficient sole-source justification
- Inconsistent procurement controls

Organizations that maintain disciplined procurement systems rarely experience significant CPSR findings.



## Preparing Your Purchasing System for CPSR

Understanding how a CPSR is conducted and what auditors examine is only the first step in preparing for a successful review. Contractors must also ensure that their purchasing systems are structured in a way that consistently produces compliant procurement decisions and defensible documentation.

As discussed throughout this guidebook, many CPSR findings do not arise from a lack of written policies or procedures. Rather, they occur when procurement activities are performed inconsistently across the organization or when the documentation supporting procurement decisions fails to demonstrate compliance with regulatory expectations.

Successful contractors therefore approach CPSR preparation not as a one-time audit exercise, but as the development of a disciplined procurement system designed to produce consistent and defensible procurement records. To support this objective, GovCon Advisory Group developed a structured framework for evaluating and strengthening contractor purchasing systems.

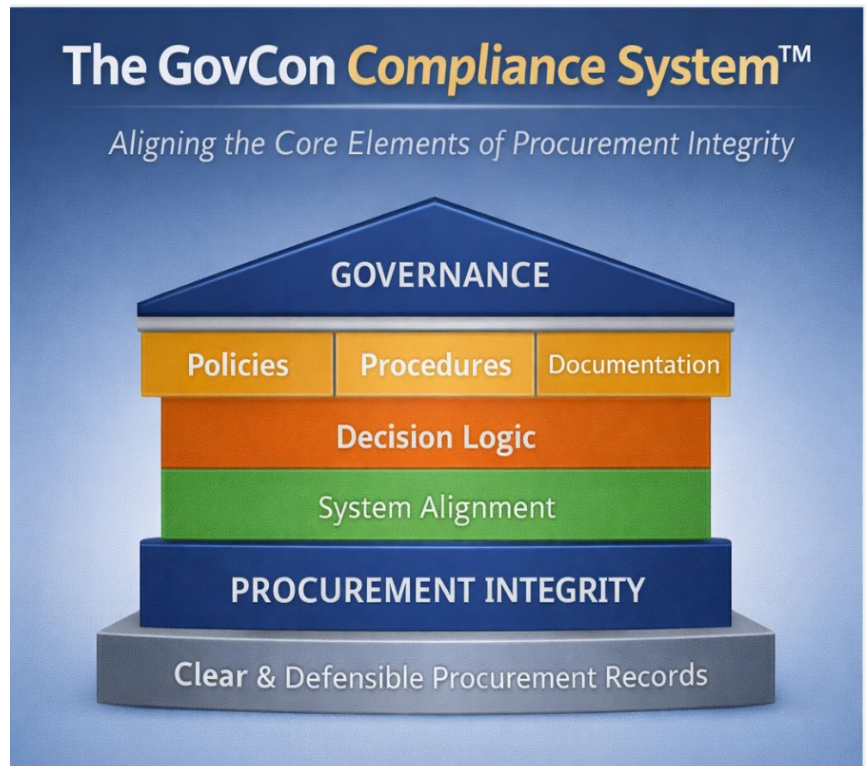
# The GovCon Compliance System™

The GovCon Compliance System™ is a structured compliance architecture designed to align the core elements required for procurement integrity within government contractor purchasing systems.

The framework recognizes that compliant procurement decisions do not occur in isolation. Instead, they are the result of multiple organizational elements working together to guide procurement personnel, document procurement decisions, and ensure regulatory requirements are consistently applied.

The GovCon Compliance System™ integrates six operational elements that collectively form the foundation of a disciplined purchasing system:

- **Policies**  
Establish regulatory and organizational procurement requirements
- **Procedures**  
Define the operational processes used to execute procurement activities
- **Documentation**  
Creates the procurement record demonstrating compliance
- **Decision Logic**  
Ensures procurement decisions follow consistent evaluation criteria
- **System Alignment**  
Integrates procurement with contracts, finance, and program management functions
- **Governance**  
Provides oversight, accountability, and internal control over procurement activities



When these elements operate together as a coordinated system, they produce the most important output of any purchasing system: **Clear and defensible procurement records.**

These records form the evidentiary foundation that DCMA auditors rely upon when evaluating a contractor's purchasing system during a CPSR.

Organizations that view procurement as a structured system—rather than a collection of individual transactions—are far more likely to maintain purchasing systems capable of withstanding CPSR scrutiny.

# Evaluating Purchasing System Readiness

While the GovCon Compliance System™ provides a conceptual framework for understanding how compliant purchasing systems function, contractors must also be able to evaluate whether their current systems meet CPSR expectations.

Many organizations assume their purchasing systems are compliant simply because policies and procedures exist. However, the true measure of CPSR readiness is whether procurement practices and documentation consistently align with regulatory requirements across actual procurement transactions. For this reason, contractors preparing for a CPSR benefit from conducting a structured readiness evaluation prior to government review.

## The CPSR Readiness Model

To assist contractors in evaluating their purchasing systems, GovCon Advisory Group developed the CPSR Readiness Model, a structured scoring framework designed to assess the maturity and compliance posture of contractor purchasing systems. The model evaluates how effectively the elements of the GovCon Compliance System™ operate together to support compliant procurement decisions and defensible documentation. Based on this evaluation, contractor purchasing systems are categorized into three general readiness levels.

Readiness Rating	Risk Assessment
85 - 100	Low Risk
70 - 84	Moderate Risk
Below 70	High Risk

Contractors scoring within the **Low Risk** range typically demonstrate strong procurement governance, well-structured procurement documentation, and consistent application of procurement policies across transactions.

Organizations within the **Moderate Risk** range generally possess the basic elements of a compliant purchasing system but may exhibit documentation gaps, inconsistent procurement practices, or areas requiring targeted remediation.

Contractors within the **High Risk** range often lack structured procurement controls, maintain incomplete procurement documentation, or operate procurement systems that are not fully aligned with CPSR regulatory requirements.

By understanding their position within the CPSR readiness model, contractors can better prioritize corrective actions and system improvements before a formal review occurs.

## CPSR Readiness Assessment

The CPSR Readiness Assessment is a diagnostic tool used to evaluate how well a contractor's purchasing system aligns with CPSR expectations. The tool evaluates procurement practices across the major areas typically examined during a CPSR, including:

- procurement policies and procedures
- competition practice
- price analysis documentation
- subcontract clause flowdowns
- procurement file integrity and structure
- internal procurement controls

The assessment is typically conducted using a structured evaluation questionnaire aligned with CPSR regulatory criteria and DCMA review practices. Responses are used to generate a readiness score and identify areas where the contractor's purchasing system may require improvement prior to government review.

In this way, the CPSR readiness assessment serves as both a diagnostic tool and a remediation roadmap, helping organizations strengthen procurement systems and improve their likelihood of successfully passing a CPSR.

## How GovCon Advisory Group Can Help

GovCon Advisory Group provides specialized advisory services to government contractors seeking to strengthen their procurement systems and prepare for CPSR.

Services include:

- CPSR readiness assessments
- Procurement system diagnostics
- Purchasing policy development
- Mock CPSR audits
- Procurement file reviews
- Remediation planning

## Final Recommendations

Contractors that consistently pass CPSRs share several common characteristics.

They maintain disciplined procurement systems, ensure procurement personnel understand regulatory expectations, and treat procurement documentation as a structured system of records.

By investing in strong procurement governance and documentation practices, organizations not only improve their CPSR outcomes but also strengthen overall program execution and compliance performance.

# Schedule a CPSR Readiness Assessment

Contact  
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