A Practical CPSR Guide for Government Contractors

Working with the Department of Defense or other federal agencies means your business will eventually face a Contractor Purchasing System Review, or CPSR. For many small to midsize contractors, the first notification of a pending review brings a mix of anxiety and confusion. After helping several firms through their first CPSR, I want to share the practical insights that actually make a difference. This CPSR guide is built from real experience, not textbook theory.

What a CPSR Actually Looks At

The Defense Contract Management Agency (DCMA) conducts CPSRs to evaluate whether a contractor's purchasing system complies with federal regulations, primarily the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS). The review is not an audit in the traditional financial sense. It focuses on process, documentation, and consistency. The reviewers want to see that your purchasing policies are written down, followed every day, and produce fair and reasonable prices for the government.

Most contractors I have worked with worry about the wrong things. They spend weeks polishing a compliance manual that no one on the purchasing team actually uses. That is a mistake. The reviewer will interview your buyers, look at a sample of purchase files, and check whether the written policy matches real behavior. A gap between policy and practice is the fastest way to get a finding.

Key Areas the Review Covers

The CPSR checklist is structured around several core elements. Understanding these helps you prepare without getting lost in the regulations.

- Pricing and cost analysis, How do you determine that a price is fair and reasonable? Do you request competitive quotes or use other approved methods?
- File documentation, Can you locate the purchase request, solicitation, quotes, award document, and receiving report for a given transaction quickly and completely?
- System controls, Are there checks in place to prevent unauthorized purchases, conflicts of interest, or improper use of government property?
- Small business subcontracting, Do you have a plan and are you meeting your goals for subcontracting with small, disadvantaged, and veteran-owned businesses?

Each area has its own pitfalls. For example, many contractors assume that if they get three quotes, they have done enough. But the reviewer will also check whether the quotes were

solicited properly, whether the independent government cost estimate (IGCE) was considered, and whether the buyer documented why the winning quote was chosen. The thought process matters as much as the numbers.

Common Findings and How to Avoid Them

After reviewing dozens of CPSR reports, I see the same issues recurring. Incomplete purchase files top the list. Missing a single quote, a price analysis memo, or a receiving report can trigger a finding. The solution is a file checklist that your team uses every time. Laminate it, tape it to the desk, or embed it in your procurement software. Make it impossible to close a file without every required document attached.

Another frequent finding is inadequate price analysis. Contractors often rely on a single source or accept a vendor's catalog price without questioning it. The FAR expects you to do more. Even if you cannot get competitive quotes, you should document why the price is fair using historical data, market research, or cost analysis. The reviewer wants to see that you thought about it, not that you paid the lowest price.

Conflict of interest controls are another area where contractors slip. I have seen firms where the same person requisitions, approves, and receives the goods. That is a red flag. Segregation of duties is a basic control. If your company is too small to have separate people for each role, you need compensating controls, like a manager reviewing all transactions over a certain dollar amount. Document those controls in your purchasing procedure.

Building Your CPSR Guide from Scratch

When you start preparing for a review, the first step is to write or update your purchasing system description (PSD). This is the document that explains how your company buys things. It should reference your internal procedures and the relevant FAR clauses. Do not copy and paste from a template you found online. Reviewers see the same generic language over and over and they know when a procedure does not match your operations. Write it in your own words, based on what your buyers actually do.

Next, gather your supporting documents. Your CPSR guide should include a copy of your purchasing procedures, delegations of purchasing authority, small business subcontracting plan, and any training materials you use. Reviewers may also ask for a list of all purchase orders issued in the last twelve months. If you have a high volume, they will select a statistical sample. Make sure those files are complete and accessible.

Train your people. The most thorough manual in the world is useless if the purchasing team does not know it exists. Hold a brief refresher session before the review. Walk through the key steps: how to solicit quotes, how to document price analysis, how to handle sole-source

justifications. Let them ask questions. The more comfortable they are, the smoother the review will go.

What Happens During the Review

The CPSR typically includes an entrance conference, a review of files and processes, interviews with key personnel, and an exit conference. The reviewer will ask to see specific files, talk to your buyers, and observe how your purchasing system works in practice. Be honest if you do not know the answer to a question. Guessing is worse than saying you will find out. The reviewer is looking for a system that works, not a perfect system.

Findings are classified as deficiencies or areas for improvement. A deficiency means your system does not meet a regulatory requirement. An area for improvement means your system works but could be better. You will have a chance to submit a corrective action plan. Take the findings seriously and fix them. A second CPSR within a few years is common if the first one had major deficiencies.

Long-Term Value of a Good CPSR

Passing a CPSR with no deficiencies is a significant achievement. It tells the government that your company is a reliable contractor with mature processes. It also makes future reviews easier because you have a track record of compliance. I have seen contractors use their clean CPSR report as a selling point when bidding on new contracts. It signals that they understand the rules and can be trusted with taxpayer dollars.

This CPSR guide is meant to demystify the process, but it does not replace professional advice. If your company is facing its first review, consider hiring a consultant who has been through CPSRs before. The cost is small compared to the risk of a negative finding that could affect your ability to win future contracts. And remember, the goal is not just to pass the review. The goal is to build a purchasing system that serves your business well while meeting all regulatory requirements. That is the real win.