How a Contractor Purchasing System Review Keeps Your Government Contracts Compliant

What a Contractor Purchasing System Review Actually Covers

If you work in government contracting long enough, you will eventually hear someone say "the review is coming." That review is the contractor purchasing system review, and it is one of the most important compliance checks a federal contractor faces. The Defense Contract Audit Agency (DCAA) or a contracting officer typically conducts it to verify that your purchasing system meets the requirements of the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS). The stakes are high: a failed review can lead to withheld payments, disallowed costs, or even suspension of your contracting privileges.

I have been through this process more times than I can count, both as a contractor and later as a consultant helping others prepare. The truth is that many companies treat the review as a bureaucratic hurdle, something to survive every few years. But that mindset misses the point. A well-run purchasing system is not just about passing an audit; it is about spending taxpayer money responsibly and protecting your own business from risk.

The review itself looks at several areas. The government wants to see that you have written procedures for how you buy goods and services. They check that you are getting competitive quotes when required, that you are not paying unreasonable prices, and that you are properly documenting your purchase decisions. They also want to know that you are flowing down required clauses to your subcontractors. If you cannot produce clear records showing how you handled a particular purchase, the reviewer will flag it. And once flags start appearing, the whole review can spiral into a long, expensive headache.

Why Your Purchasing System Matters Beyond Compliance

A lot of contractors think of the purchasing system as a back-office function. They hand it off to a junior buyer or a part-time administrator and assume everything will be fine. But the contractor purchasing system review is really a test of your entire internal control environment. If your procurement process is sloppy, it often means other areas are sloppy too. I have seen companies pass a review on paper only to fail the next year because they never actually followed their own procedures. The government notices patterns, not just individual transactions.

One concrete example: a mid-sized defense contractor I worked with had a purchasing manual that was beautifully written. It required three quotes for any purchase over $5,000, documented bid analyses, and clear approval chains. But in practice, engineers were buying parts directly

from suppliers without going through procurement at all. The purchasing team only found out when invoices arrived. When the DCAA reviewed their system, they saw purchase orders that had no corresponding quotes and invoices that referenced no purchase order. The review turned into a corrective action plan that took nine months to close.

The lesson is that your purchasing system has to match your actual workflow. If your people cannot follow the written procedure, either the procedure needs to change or your people need better training. A contractor purchasing system review will expose that gap every time.

Common Pitfalls That Trip Up Contractors

Over the years, I have seen the same mistakes appear again and again. Here are the most frequent ones:

- Inadequate documentation of the purchase decision. The government wants to see the "why" behind each purchase, not just the receipt. If you picked a higher-priced supplier because they could deliver faster, write that down and keep it in the file.
- Missing or incomplete subcontractor flow-down clauses. Many contractors forget to include mandatory FAR clauses in their subcontracts, especially for smaller purchases. This is a quick way to get a finding.
- No segregation of duties. The same person should not request a purchase, approve it, and receive the goods. Small companies often combine these roles, but you need at least some separation to show control.
- Ignoring small purchases. Even micro-purchases need to be tracked. If you let employees buy things with a company credit card and never review those purchases, you are creating risk.
- Using outdated pricing data. The government expects you to have a reasonable basis for determining that prices are fair. If you last checked market prices two years ago, that may not hold up.

Each of these items is something you can fix before the review starts. The key is to treat your purchasing system as a living process, not a binder on a shelf.

Automation and the Human Element

I have seen a growing trend toward using software to manage procurement compliance, and for good reason. A good system can enforce your procedures automatically, flag exceptions, and keep an audit trail that reviewers love. But software alone is not enough. I have worked with companies that bought expensive procurement platforms but never configured them to

match their own policies. The result was a system that generated reports nobody read and approvals that happened by default because the workflow was set up wrong.

The human element matters just as much. Your buyers need to understand why the rules exist. They need to know that skipping a quote to save time today could cost the company far more in a disallowed cost tomorrow. I recommend running a mock review internally every year, even if you are not due for a real one. Pick a sample of purchases from the last twelve months and go through them as if you were a DCAA auditor. You will almost certainly find something to improve.

Preparing for the Review Itself

When the notification for a contractor purchasing system review arrives, do not panic. The government typically gives you several months to prepare. Use that time wisely. Start by pulling your purchasing procedures and making sure they are current. Then gather a representative sample of purchase files from the last year. The reviewer will ask for a cross-section of transactions, so pick a mix of high-dollar purchases, subcontracts, and small buys.

Review each file against your own procedures. If you find a file that is missing a document, add it now. But be honest: if you discover a systemic problem, do not try to hide it. It is better to disclose the issue and show how you are fixing it than to have the reviewer find it first. The government often looks more favorably on a contractor that acknowledges a weakness and has a corrective action plan.

I also recommend designating one person as the point of contact for the review. That person should know the purchasing system inside and out and should be able to answer questions without having to go look things up every time. If the reviewer senses confusion, they will dig deeper. Confidence and clarity go a long way.

Beyond the Review: Building a Better System

The real value of a contractor purchasing system review is not the audit itself. It is the opportunity to step back and ask whether your procurement process serves your business well. A compliant system is also an efficient one. When you have clear procedures, good documentation, and trained staff, you spend less time firefighting and more time delivering on your contracts.

I have seen companies that initially dreaded the review end up grateful for it. The process forced them to clean up sloppy habits, improve communication between departments, and ultimately save money. One contractor told me that after their review, they found they were overpaying a supplier by 15 percent because nobody had checked the market in three years.

The review exposed that problem and the company saved six figures annually after renegotiating.

That is the kind of outcome that turns a compliance burden into a business advantage. The contractor purchasing system review is not going away, and the government is getting more sophisticated every year. But if you treat it as a chance to improve your operations, you will come out ahead.

Whether you use manual processes or software tools, the principles are the same: document everything, follow your own rules, and never assume a small purchase is too small to matter. The companies that do that consistently are the ones that pass their reviews with minimal findings and keep their contracts on track.