Why CPSR Compliance Matters for Government Contractors

If you have ever worked through a government contract audit, you know the feeling when a reviewer asks for your purchasing system documentation. That moment can go smoothly or it can turn into a drawn-out struggle. The difference often comes down to how well you understand and manage your CPSR compliance. A Contractor Purchasing System Review is not just a bureaucratic hurdle. It is a structured check on whether your procurement processes meet federal standards.

I have seen contractors treat CPSR readiness as a last-minute scramble. They dig out old files, rewrite procedures the night before, and hope the reviewer does not look too hard. That approach rarely ends well. A failed review can mean losing your delegated purchasing authority, which then forces every transaction through a government contracting officer. That slows down your operations and adds cost to every purchase order.

The better path is to build CPSR compliance into how you run your business every day. When you align your purchasing system with FAR Part 44 and DFARS Part 244, you are not just pleasing an auditor. You are creating a system that reduces risk, improves vendor management, and gives your team clear rules to follow. Let me walk through what that looks like in practice.

What CPSR Compliance Actually Requires

A CPSR evaluates whether your purchasing system satisfies the criteria in FAR 44.202-2. That regulation lists 15 system criteria, from written procedures and price analysis to subcontract management and purchasing ethics. Each criterion has its own set of expectations. For example, criterion (e) requires that you perform adequate price or cost analysis on all purchases above the micro-purchase threshold. That is not a suggestion. It is a requirement that auditors test by sampling your transactions.

One of the most common findings I see in CPSR reports is a weak price analysis process. Many contractors assume that getting three quotes is enough, but the regulation asks you to document how you determined that the price was fair and reasonable. If you cannot show your reasoning, the reviewer can flag it as a deficiency. The same goes for documenting your purchase files. Each file should include the requirement, the solicitation, the evaluation, the award document, and the receipt record. Missing any one of those pieces can lead to a corrective action request.

Building a System That Lasts

The contractors who handle CPSR compliance well usually have a few things in common. First, they have written procedures that their buyers actually use and understand. A thick binder of policies that sits on a shelf does not help anyone. The procedures need to be practical, updated regularly, and tied directly to the way work gets done. Second, they train their staff on those procedures. It sounds obvious, but I have seen companies with excellent written policies and buyers who had never read them. That gap shows up immediately in an audit.

Third, they build in checks and balances. A good purchasing system has separation of duties. The person who requests a purchase should not be the same person who approves it, and the person who processes the payment should be separate again. That separation helps prevent errors and fraud, and it is something reviewers look for. Fourth, they keep their records organized. A CPSR reviewer will ask for a sample of transactions, often 20 to 40 files. If your filing system is chaotic, the reviewer will assume your processes are too.

Finally, the best contractors treat CPSR compliance as a continuous process, not a one-time event. They conduct internal reviews every quarter, check their own files for completeness, and fix issues before an external reviewer ever sees them. That proactive approach saves time and stress in the long run.

Common Pitfalls and How to Avoid Them

Even experienced contractors can trip up on a few specific areas. One is the treatment of commercial items. FAR Part 12 and Part 13 have different rules for commercial and non-commercial purchases. If you buy a commercial item but apply the rules for a non-commercial item, you create unnecessary work. If you do the reverse, you risk violating the Truth in Negotiations Act. Your procedures need to clearly define how you determine commerciality and document that determination.

Another pitfall is subcontract management. If you are a prime contractor, your CPSR will include a review of how you manage your subcontractors. That means you need written subcontracting procedures, a process for evaluating subcontractor performance, and a system for flow-down of required clauses. Many contractors treat subcontracts like just another purchase order, but the government sees them differently. A subcontract is a binding agreement that transfers part of the contract scope. It needs its own set of controls.

A third area is purchasing ethics. FAR Subpart 3.7 requires contractors to maintain a purchasing system that is free from conflicts of interest. That means your employees cannot have a financial interest in any vendor they buy from. It also means you need a procedure for reporting and resolving potential conflicts. I have seen companies miss this requirement because they never thought about it, but it is one of the first things a reviewer checks.

Practical Steps to Prepare

If you are aiming for a CPSR or preparing for a re-review, start with a self-assessment. Compare your current purchasing system against the 15 criteria in FAR 44.202-2. Be honest about where you fall short. Then create a corrective action plan with deadlines and assigned owners. That plan becomes your roadmap.

Next, conduct a mock review. Pull a sample of your purchase files and go through them as if you were a government auditor. Check for missing signatures, incomplete justifications, and missing documentation. If you find problems, fix them and adjust your procedures so the same issues do not happen again. Mock reviews are uncomfortable, but they are far better than failing a real CPSR.

You should also invest in training. Your buyers and contract administrators need to understand the basics of the FAR and DFARS as they relate to purchasing. They do not need to become lawyers, but they need to know what a price analysis looks like and how to document it. Many companies bring in a consultant or use online training modules to fill knowledge gaps. That investment pays off when the reviewer finds fewer deficiencies.

The Bigger Picture

CPSR compliance is not just about passing a review. It is about running a professional purchasing operation that can handle the complexity of government contracts. When your system is solid, you can focus on delivering your work instead of worrying about audit findings. You also build trust with your contracting officers, which can lead to more opportunities down the road.

I have worked with contractors who turned their CPSR from a weakness into a strength. They used the review process to clean up their operations, train their staff, and build better relationships with vendors. Those companies did not just survive the audit. They came out stronger on the other side. That is what CPSR compliance can do when you treat it as a tool instead of a burden.