



Contractors that generate more than \$25 million in sales to the Federal government via cost-type contracts or sole-source fixed-price contracts (including modifications thereto) are eligible to receive a visit from DCMA functional specialists who will perform a Contractor Purchasing System Review (CPSR). The objective of a CPSR is “to evaluate the efficiency and effectiveness with which the contractor spends Government funds and complies with Government policy when subcontracting.” (Ref. FAR Subpart 44.3.) Special CPSR focus areas include—

- (a) The results of market research accomplished;
- (b) The degree of price competition obtained;
- (c) Pricing policies and techniques, including methods of obtaining certified cost or pricing data, and data other than certified cost or pricing data;
- (d) Methods of evaluating subcontractor responsibility, including the contractor’s use of the System for Award Management Exclusions (see 9.404) and, if the contractor has subcontracts with parties on the Exclusions list, the documentation, systems, and procedures the contractor has established to protect the Government’s interests (see 9.405-2);
- (e) Treatment accorded affiliates and other concerns having close working arrangements with the contractor;

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- (f) Policies and procedures pertaining to small business concerns, including small disadvantaged, women-owned, veteran-owned, HUBZone, and service-disabled veteran-owned small business concerns;
- (g) Planning, award, and postaward management of major subcontract programs;
- (h) Compliance with Cost Accounting Standards in awarding subcontracts;
- (i) Appropriateness of types of contracts used (see 16.103); and
- (j) Management control systems, including internal audit procedures, to administer progress payments to subcontractors.

Astute readers looking at the CPSR focus areas above might notice a curious omission. It's difficult to discern where the DCMA functional specialists would evaluate a contractor's internal controls that would mitigate risks of corruption. For example, where is the evaluation of the contractor's controls that act to prevent receipt of bribes and kickbacks by personnel involved in purchasing?

That's where DCAA comes into the picture. DCAA auditors can perform [additional testing](#) of the contractor's internal controls related to its purchasing system—at least in theory. In fact, the DCAA has prepared an [internal control matrix](#) that can be a useful tool for contractors seeking to assess their purchasing system internal controls. In theory, DCAA can either perform its audit procedures as part of the CPSR team, or on its own (based on its perception of risk).

We say "in theory," of course, because DCAA doesn't, as a rule, actually perform audits of contractors' purchasing system internal controls in the current environment. Reviews of contractors' business systems are not the highest priority for the Pentagon's audit agency at the moment. Such audits have fallen to the bottom of the in-box in the same way that post-award "defective pricing" reviews have slipped in priority, and in the same way that Disclosure Statement adequacy reviews have slipped in priority. (That's not to say that *no* such reviews are being performed; but it's fairly clear that the number of such reviews has dropped precipitously, such that there is a very low probability that your company will experience one in the near future.)

The Department of Defense has thus effectively ceded purchasing system internal control

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testing to the contractors. It is up to the contractors to both establish their internal control systems and to test them for efficacy. And in times of budgetary pressure, should we be surprised if contractors decide that they have more important investments for their overhead dollars? Should we be surprised if contractors decide to cut back, or to forego altogether, the kind of internal reviews and testing procedures that would tend to ferret out employee wrongdoing—such as those that would detect corruption by personnel involved in purchasing?

The thoughts above may provide some context for a recent [news story](#), reporting that a former Boeing “procurement officer” and three vendors were indicted by a Federal grand jury for mail and wire fraud “stemming from a bribery and kickback scheme involving Boeing military aircraft parts.” According to the news report—

Boeing Procurement Officer Deon Anderson allegedly provided J.L. Manufacturing, a Washington-based aerospace job machine shop, non-public competitor bid information and historical price information in connection with multiple Boeing military aircraft part purchase order requests. That information was used in bids submitted by J.L. Manufacturing to Boeing for approximately nine different Boeing parts requests - of those nine, J.L. Manufacturing was awarded seven, totaling more than \$2 million. In exchange for the information, J.L. Manufacturing's Robert Diaz and Jeffrey Lavelle made cash payments to Anderson in St. Louis and California.

In addition, the indictment states that another Boeing sub-contractor, William Boozer, the owner and operator of Globe Dynamics, asked Anderson to provide non-public competitor bid information and price information in exchange for cash payments. Anderson gave Boozer information for bids on behalf of Globe Dynamics for approximately 16 different Boeing requests. Of the 16 bids, Globe Dynamics was awarded seven purchase orders to supply U.S. military aircraft parts to Boeing - totaling more than \$1.5 million.

Boeing is reportedly cooperating with the prosecutors, as well it should. We'd like to think it was Boeing's vigilance that detected the alleged wrongdoing, but we have our cynical doubts. Consequently, it behooves Boeing to cooperate fully, lest allegations of lax oversight and lack of controls lead it to an unwanted membership in the [five percent withhold club](#).

The thing is, it shouldn't have been that difficult to detect the alleged corrupt arrangement. While it may be possible that a single bidder might win seven of 16 competitions, having another vendor win seven of nine competitions should have raised some eyebrows. That kind of win ratio might well be considered to be a risk indicator for corruption within the purchasing function. It would seem fairly easy to mine procurement system data for such anomalies. (And again, for all we know, that's exactly what Boeing did.)

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Given the Government's seeming retreat with respect to testing contractor purchasing system anti-corruption controls, it's more important than ever for contractors to implement data mining and other, relatively inexpensive, techniques that act to detect employee wrongdoing. If nothing else, such controls will tend to keep embarrassing news reports to a minimum.