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# **Contractor Purchasing System Review (CPSR) Group**

## **CPSR Update - Common Purchasing System Deficiencies and Safeguarding Covered Defense Information and Cyber Incident Reporting**

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- What is a Contractor Purchasing System Review (CPSR)
- Clauses and Guidance to Understand
- CPSR Guidebook
- Preparing for a CPSR
- CPSR Review Elements
- Learning from others: Most common contractor deficiencies in FY18
- Emphasis item – Supply Chain Management - Safeguarding Controlled Defense Information (CDI) when subcontracting

# What is the Purpose of a CPSR?

- Evaluation of efficiency and effectiveness with which the contractor spends Government funds and complies with Government policy when subcontracting
- Complete evaluation of a contractor's purchasing of material from services, subcontracting, and subcontract management from development of the requirement through completion of the subcontract performance
- Report findings to Contracting Officer providing a basis for granting, withholding, or withdrawing approval of the purchasing system
- Review corrective action plan for effectiveness and validate implementation

- FAR part 44 – Subcontracting Policies & Procedures
- DFARS part 244 – Subcontracting Policies & Procedures
- FAR 52.244-2 (Alternate I when applicable) – Subcontracts
- DFARS 252.242-7005 - Contractor Business Systems
- DFARS 252.244-7001 - Contractor Purchasing System Administration (New Business Rules)

- Outlines the whole CPSR process
- Job Aids provide an extensive explanation of all report elements
- Addresses compliance (both policy and practice)
- A living document updated by “Champions” as requirements change
- All revisions are reviewed by the Agency’s Policy and Legal Groups
- Posted on the Agency’s external website and available to all contracting officers and contractors
- Found at <https://www.dcma.mil/> under the **Customer & Industry Access** section

- How do I prepare?
  - Understand the clauses that are in your contract
  - Best practice is to conduct a prime contract receipt and review
  - Understand the reason you are being asked to comply in each instance
  - The FAR and DFARS provide ultimate guidance
  - Review the CPSR Guidebook
- CPSR is coming to check your files so that government officials can rely on your purchasing system

- Entrance briefing with contractor and government personnel
- Physical review based on the 30 CPSR report elements
- CPSR Analysts conduct daily briefs to keep the contractor and ACO informed of arising concerns or issues
- Analyst questions are formally submitted to the contractor in writing and tracked on a question log which is provided at end of review
- Pre- Exit briefing conducted to present contractor with preliminary findings (compilation of the daily briefs)
- Formal Exit briefing conducted to provide the contractor and ACO with preliminary findings

- Analyze data and develop statistics
- Prepare a report addressing the contractor's policy and practice for each of the review elements
- Report released to ACO within 30 business days of exit briefing
- When non-material deficiencies are identified, the procurement analyst issues a Level II CAR and follows through to closure
- When material deficiencies are identified, the procurement analyst prepares a draft level III CAR and the contractor provides a response to the ACO



CPSR REPORT MATRIX (Elements 1-15)	DFARS 252.244-7001 Criteria
1. Policies and Procedures Manual	(c) (1), (17), (19), (22) and (24)
2. Truthful Cost or Pricing Data (Truth-In-Negotiations Act (TINA))	(c) (10), (16) and (22)
3. Cost Accounting Standards (CAS)	(c) (2) and (19)
4. Prior Consent and Advance Notification	(c) (1)
5. Small Business Subcontracting Plans	(c) (2) and (19)
6. Protecting the Government's Interest when Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment	(c) (7)
7. Limitation on Use of Appropriated Funds to Influence Certain Federal Contracting and Financial Transactions (Anti-Lobbying)	(c) (2) and (19)
8. Defense Priorities and Allocation System (DPAS) Rating	(c) (1)
9. Federal Funding Accountability and Transparency Act (FFATA) of 2006	(c) (2) and (19)
10. Quality Management and Counterfeit Parts Detection and Avoidance Systems	(c) (19) and (21)
11. Price Analysis	(c) (8), (9), (10), (16) and (22)
12. Source Selection	(c) (4), (5), (7), (8), (9), (10), (20), and (21)
13. Negotiations	(c) (11) and (12)
14. Make-or-Buy Program	(c) (6)
15. Limitations on Pass-through Charges	(c) (24)

CPSR REPORT MATRIX (Elements 16-30)	DFARS 252.244-7001 Criteria
16. Documentation	(c) (4), (5), and (15)
17. Training	(c) (17) and (18)
18. Internal Review/Self-Audit	(c) (17) and (18)
19. Mandatory FAR/DFARS Flow Down Requirements/Terms and Conditions	(c) (2), (16) and (19)
20. Purchase Requisition Process	(c) (4)
21. Commercial Item Determination	(c) (5)
22. Subcontract Types	(c) (13) and (23)
23. Procurement Authority	(c) (3) and (20)
24. Supply Chain Management Process	(c) (12), (14), (20) and (21)
25. Buy American and Berry Amendment	(c) (1)
26. Restrictions on the Acquisition of Specialty Metals/Articles containing Specialty Metals	(c) (19)
27. Subcontractor/Vendor Closeout Process	(c) (4)
28. Long Term Purchasing Arrangements	(c) (23)
29. Handling Change Orders and Modifications	(c) (15)
30. Intra/Inter-Company, Affiliate, or Subsidiary Transactions	(c) 5)

# Top 10 Material Deficiencies (FY18)

1. Cost/Price Analysis (55/103)
2. Debarment (44/103)
3. Federal Funding Accountability & Transparency Act (FFATA) (42/103)
4. Sole Source Selection Justification (SSSJ) (40/103)
5. Defense Priorities & Allocation System (DPAS) Rating (37/103)
6. Anti-Lobbying (31/103)
7. Commercial Item Determination (CID) (31/103)
8. Truth in Negotiations Act (TINA) (18/103)
9. Negotiations (15/103)
10. Policy & Procedure Manual (14/23)
11. Cost Accounting Standards (CAS) (14/103)

1. Policy & Procedure Manual (73/103)
2. Documentation (48/103)
3. Negotiations (27/103)
4. Sole Source Selection Justification (SSSJ) (27/103)
5. Commercial Item Determination (CID) (27/103)
6. Cost/Price Analysis (20/103)
7. Debarment (18/103)
8. Handling Change Orders & Modifications (16/103)
9. Mandatory FAR & DFARS Flow-Down T & Cs (15/103)
10. Training (14/103)

# Questions about overall CPSR process ?

- DCMA was engaged by DoD to Implement the intent of OUSD (A&S) Memorandum, *Addressing Cybersecurity Oversight as Part of a Contractor's Purchasing System Review*
- Issued by Ms. Lord on January, 21 2019.
- This Memo basically asks the CPSR Group to assure that Prime Contractors are able to safeguard Controlled Defense Information (CDI) when subcontracting

- Proper management of a supply chain requires prime contractors to manage the flow of Controlled Unclassified Information (CUI) to subcontractors.
- DFARS 252.204-7012, is a mandatory flow down.
- Reviewing such flow downs has always been a part of a contractor purchasing system review. This flow down requirement is being emphasized as part of the Supply Chain Management (SCM) review process.

- The Memo asked that DCMA, when providing contract administration and oversight, review contractor procedures to:
- ensure that contractual requirements for marking and distribution of DoD Controlled Unclassified Information (CUI) flow down appropriately to Tier 1 level suppliers,
- validate that prime contractor procedures assure that Tier 1 level suppliers are compliant with DFARS Clause 252.204-7012, Safeguarding Covered Defense Information and Cyber Incident Reporting when transfer of CUI is anticipated



- DFARS Clause 252.204-7012, Safeguarding Covered Defense Information and Cyber Incident Reporting requires contractors and subcontractors handling CUI to comply with the National Institute of Standards and Technology (NIST) Special Publication, NIST SP 800-171, Rev 1, Protecting Controlled Unclassified Information in Nonfederal Systems and Organizations.
  - 14 Families of Requirements
  - 110 Controls

- CPSR maintains a Job Aid for each CPSR review element. The requirements of DFARS 252.204-7012, and NIST SP 800-171, Rev 1 are being emphasized in the Supply Chain Management (SCM) Job Aid which is located in the CPSR Guidebook found on the DCMA public web page. The Guidebook provides instruction to both CPSR Analysts and Industry alike.
- Found at <https://www.dcma.mil/> under the **Customer & Industry Access** section

- CPSR field reviews began in March of 2019 and will follow the instruction of the revised SCM Job Aid when evaluating contractor purchasing systems.
- Should a Safeguarding of CDI deficiency be identified, it will be captured in the CPSR report and forwarded to the ACO. At that point, the deficiency is processed just like any other.
- No matter the decision on significance, a CAR will be issued and tracked to completion, thus resolving the deficiency.

- Prime contractor policies and procedures must provide adequate instruction to procurement personnel on both DFARS 252.204-7012, and NIST SP 800-171, Rev 1.
  - Prime contractors should understand which prime contracts contain DFARS Clause 252.204-7012, and specifically require the protection of CUI identified in prime contract special instructions, statements of work, or identified as actual markings.
  - Prime contractors should only include DFARS 252.204-7012, as part of the subcontract terms and conditions, when they are sure that the 14 Families Requirements and 110 Controls outlined in NIST SP 800-171, Rev 1 have been adequately addressed by their subcontractors.

- Prime contractors must document and be able to explain the steps taken to assure that any identified recipients or developers of CUI have a Covered Contractor Information System (CCIS) and associated System Security Plan (SSP).
- The prime contractors should be capable of providing a listing of all subcontractors that receive or create CUI as part of subcontract performance.
- Subcontractors should be informed by prime contractors that when accepting DFARS 252.204-7012, they are asserting compliance with the 14 Families of Requirements and 110 Controls outlined in NIST SP 800-171 Rev 1.

- DFARS 252.204-7012 requires contractors and subcontractors to safeguard or to have dissemination controls for CUI that resides on or is transiting through a contractor's internal information system or network.
- CUI should be properly marked in subcontracts containing DFARS 252.204-7012 and should not be present in subcontract/PO files where DFARS 252.204-7012 is not included. CUI should maintain its markings in all Subcontract/PO files.

- DFARS 252.204-7012 (m)(2)(i)
- Prime contractors must have a system in place to track notifications from subcontractors that they have requested, from the Contracting Officer, a variance from NIST SP 800-171, Rev 1,
- DFARS 252.204-7012 (m)(2)(ii)
- Prime contractors must have a system in place to track incident report numbers received from subcontractor as a result of cyber incidents being reported to the DOD at <http://dibnet.dod.mil>.

- Having DCMA validate that prime contractors are compliant in safeguarding CUI when subcontracting is the next logical step in DoDs efforts to strengthen the protection of Controlled Defense Information
- Contractors should be prepared since the deadline to implement DFARS 252.204-7012 and the controls of NIST SP 800-171 Rev. 1 was December 31, 2017



- Understand your contract requirements
- Maintain a robust training program
- Keep your policies and procedures current
- DoD is continually enhancing it's evaluation of contractor SCM
- We recommend maintaining a strong vendor rating system
- Empower the internal review process
- Don't lose sight of what you learned from your previous CPSR

# Questions?