

## Evaluating the Subcontracting Function: A Customer Perspective

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**Abstract.** Major process reviews or audits of the purchasing function can be considered as opportunities for Purchasing and Subcontracting departments to benchmark and showcase its processes against customer and executive management expectations. In the public procurement sector, it is mandatory for major prime contractors to undergo such detailed reviews of their subcontracting functions. In other situations, corporate management or customers mandated such reviews. Traditionally, purchasers have relied upon corporate internal audit groups or the customer's process review personnel, such as Contractor Purchasing System Review (CPSR) analysts, to accomplish this task. In the midst of the corporate accounting scandals of 2001 and 2002, there will be a greater need for organizations to allow customers full access to its operations and records. But, are there opportunities for purchasing management to not only conduct their own internal audits, but to have those audits serve as substitutes for other internal and external audits? Can purchasers and their customers truly benefit from "proactive" auditing, whereby the purchaser uses self-assessments as catalysts for re-engineering and continuous process improvements? Can these reviews be used to establish and measure department metrics?

This session will explore the advantages and disadvantages of establishing a self-assessment process focused on evaluating the Subcontracting function. It will explore the challenges often associated with developing a set of meaningful Subcontracting metrics that can be used to not only evaluate the performance of the Subcontracting organization, but to enhance its performance.

**The Opportunity.** The objective of a contractor purchasing system review (CPSR) is to evaluate the efficiency and effectiveness with which the contractor spends U.S. Government funds and complies with U.S. Government policies, laws, regulations, as well as sound business practices when subcontracting. The review provides the Government a basis for granting, withholding, or withdrawing approval of the contractor's purchasing system. The review is often seen as the standard by which corporations measure their compliance with subcontracting requirements. Organizations that value the importance of having the U.S. Government approve their purchasing system invest considerable resources in order to maintain such a system. To a greater degree, the same internal efforts expended to maintain an approved system can serve as objective evidence of self-assessment steps.

Managing risk is the primary reasoning for any customer's interest in reviewing its contractor's procurement system. The U.S. Government, like many customers, does not have absolute control over the subcontracting process. They use "flowdown" clauses to manage the subcontracting process. These clauses implement laws that impact areas of social, economic, national security, public interests. Prior to performing a Contractor Purchasing System Review on a contractor, the Government must conduct a risk assessment to determine the Government's financial, quality, and delivery exposure posed by contractor operations. The CPSR Guidebook, March 2000 version, lists 13 factors that are to be used by the Government

in conducting a risk assessment. Factors identified include the contractor's self-assessment and internal auditing efforts. The Guidebook states: "Some contractors perform self assessments and internal audits of their purchasing activity. A contractor who has an effective and aggressive self-assessment and/or internal auditing program will lessen the risk to the Government because the contractor is policing its own activities.

The Government encourages coordinated team approach, which promotes the sharing of data and reduction of duplicate effort, in the CPSR process. Personnel, such as DCAA auditors, buying activity representatives, DCMC technical specialists, and contractor personnel may be asked to participate as team members or provide input to the team.

In scheduling a CPSR, the team leader should determine what other Government personnel may be required, and the role of contractor personnel assisting the audit. Additionally, the CPSR Guidebook states that team leaders should invite contractors to increase their participation, either as full team members, or to some lesser degree, as seen fit by contractor management (e.g., share internal audit reports, conduct joint and coordinated audits, etc.). To ensure objectivity, contractor participants should be internal audit personnel, or otherwise outside the materiel/purchasing span of control. CPSR teams should not duplicate the efforts of its contractor team members, except as may be necessary to validate findings. CPSR teams may provide copies of current work paper documents to contractor team members, and accept from them contractor work papers. The degree of contractor participation should not be a factor in the ACO's decision to grant purchasing system approval.

Finally, the CPSR Guidebook states, in the Self Governance section that contractors may increase their participation in CPSRs by volunteering to participate in Contractor's Risk Assessment Guide (CRAG) Part 5, Purchasing. DCMA recognized CRAG as an element of its risk management philosophy. Contractors may submit their CRAG reports to their ACOs at any time. When ACOs and CPSR team leaders conduct their risk assessments, they will use them to determine the scope of validation necessary, the scope of the overall review, and the desired degree of contractor involvement for the next review. The Guidebook provides details as to how contractor's can initiate participation in self- governance via the CRAG process:

1. Taking the lead role, a contractor should notify its ACO of its intention to participate in CRAG Part 5.
2. The contractor meets with its cognizant CPSR team leader to establish the ground rules under which they will work.
3. The contractor should reduce to writing its internal audit plan for conducting its own CPSR on itself (covering all the processes delineated in this guidebook, and then request CPSR team agreement with, and ACO approval of, the plan.
4. The contractor should conduct its own CPSR in accordance with its Government approved plan, write its report covering all the required processes, and submit it to the ACO for validation.
5. Contractor internal auditors must obtain the cooperation of all company departments to correct purchasing system deficiencies, not just the purchasing and materiel departments.
6. ACOs should request CPSR teams to validate the contractor's findings, and to review any omitted processes specified in this guidebook, indicated by a risk assessment or negotiated with the customer.

As shown above, contractors should increase their participation in the CPSR Process by performing proactive self-governance or at the minimum being part of the CPSR Team.

**Objectives:** This presentation will inform the audience about the process of establishing a self-governance program that includes meaningful metrics. Workshop participants will be exposed to effective processes, strategies and techniques developed by the presenter in order to successfully implement a self-governance program. The discussion will focus on methods that can be used to effectively market the self-governance program to the Government.

Finally, participants will learn how to establish effective measures to ensure that the program facilitates continuous process improvement and customer satisfaction.

## **REFERENCES:**

*Defense Logistic Agency.* Contractor Purchasing System Review Training Manual, Washington: U.S. Government, 2000

*U.S. Government.* Federal Acquisition Regulations, Washington: U.S. Government, 2002