

## The Role of a Consulting Firm in Corporate Compliance – A Case Study in Risk Management

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### Introduction

Every aspect of business carries some degree of risk - one of your key responsibilities as a supply management professional is managing these risks to avoid situations that might jeopardize your firm's operations. Risks can be anticipated and controlled in areas such as financial, legal, and performance. It is difficult to pick up a newspaper today and not read about the financial scandals that have plagued many corporations. Clearly, the focus of those headlines is on the conduct and behaviors of Chief Executive Officers and members of the Board of Directors. But what if you were to pick up tomorrow's newspaper and discover that your Supply Management Department has been accused of misappropriations of funds, violation of laws, and operating under poor business practices? As shocking as it sounds, this could be happening within your organization today, right under your nose.

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### The Opportunity

As competition among U.S. Government defense contractors becomes increasingly fierce, each contractor must adopt strategies that can set itself apart from the pack. What better way of doing this than to obtain your top customer's approval of your supply management and subcontracting processes and practices?

A multi-national, U.S. based high-technology firm employed a number of procurement professionals in its supply management and subcontracting function. As a major U.S. Government defense contractor, the firm is obligated to operate a supply management and subcontracting function that complies with all aspects of the Federal Acquisition Regulations (FAR). The ultimate measure of its compliance with the FAR is the process of obtaining a supply management and subcontracting function that is compliant with the requirements of the Contractor's 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. While conducting a CPSR, the CPSR analysts focus on identifying possible signs of a weak-subcontracting system. These signs include:

- Noncompliance with Public Laws
- Noncompliance with Regulations
- Noncompliance with Prime Contract Requirements
- Failing Establishment of Sound Policies and Procedures in Subcontracting
- Failing to implement Good Business Practices

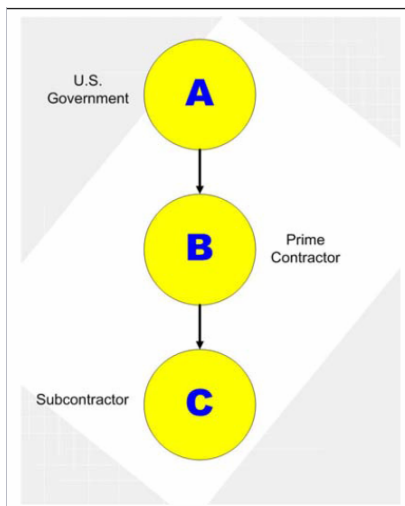
The firm's Manager of Subcontracts was contacted by a U.S. Government auditing agency and informed that his organization would be subjected to a two week CPSR within the next nine months. It had been almost five years since the firm had undergone such scrutiny of its operations. Because of this time span, several potential problems and considerations surfaced, such as:

- The implementation of new and revised regulations and laws
- The loss of knowledgeable personnel
- The lack of documented procedures
- The existence of out-of-date Corporate Policies

Furthermore, the firm was in the midst of undergoing audits from many other U.S. Government audit agencies. This put a drain on the firm's vital resources. The Manager of Subcontract was truly concerned about the fate of his organization.

### **Failure Is Not An Option!**

There are many negative consequences that are possible as a result of failing a CPSR. The primary and arguably the most important from an organization's "bottom-line" prospective, is the negative customer perception of the organization. In U.S. Government procurement, many large defense firms routinely subcontract up to 90% of the work effort under a prime contract. The U.S. Government relies heavily upon these firms' ability to control subcontractors. This is based on the fact that there is typically no legal privity of contract between the U.S. Government and subcontractors, as illustrated below:



The U.S. Government's remedy for a prime contractor's failure to pass a CPSR is the withholding or withdrawal of that firm's subcontracting system. This would result in a prime contractor's inability to issue a subcontract without first seeking the written approval of a U.S. Government Contracting Officer. This additional approval causes:

- Increased Cycle Time
- Increased Acquisition Costs
- Possible Prime Contract Performance Problems

In addition to these problems, a failed CPSR can have devastating effects on the future of the firm.

- Disqualification on Competitive Request for Proposals
- Losing a Competitive Proposal Based on Past Performances on Government Audits
- Loss of Revenue
- Increased Government Oversight – Other Audits Will Follow
- Increased Overhead Expenses

- Delayed Billings and Collections

In this defense prime contractor's opinion, failure was not an option!

### **The Solution**

Typically, the firm would have relied upon its internal audit staff to conduct an audit of the function in order to determine its strengths and weaknesses. However, the firm realized that its internal audit staff does not use the same set of metrics as the U.S. Government CPSR analysts. In addition, internal audit staffers tend to have Accounting or Financial related education and experience, not supply management. After careful examination of its internal resources, the firm made a strategic decision to seek the assistance of a management-consulting firm that specializes in corporate compliance and risk management. The defense contractor used a classic approach to finding a consulting firm that could assist them in managing the CPSR Project.

1. Seek a Consulting Firm with industry experience and a successful track record.
2. Seek a Consulting Firm with project management tools and processes.
3. Seek a Consulting Firm with relevant knowledge.
4. Seek a Consulting Firm that has the ability to "get up to speed quickly".
5. Seek a Consulting Firm that can objectively analyze, review, measure, and recommend the best course of action needed to achieve project objectives.
6. Seek a Consulting Firm that will be an Agent of Change. One that is grounded in the techniques of Business Process Re-engineering and Continuous Process Improvement. Seek a Consulting Firm that can develop automated solutions and customized training. Seek a Consulting Firm that has a proven process.

The firm decided to engage the services of J.A. White & Associates, Inc. several months prior to the audit. J.A. White & Associates, Inc.'s consultants utilized the following approach to the project, they:

1. Developed a defined Statement of Work and Project Schedule
2. Conducted a Risk Assessment to determine the firm's strengths and weaknesses
3. Established the firm's ability to embrace and manage strategic change
4. Engaged in the development of new processes, policies and procedures, desktop guides, and job aids
5. Assisted in Business Process Re-engineering efforts
6. Developed and conducted training

7. Assisted in the establishment of metrics
8. Motivated and energized the firm's culture relative to the CPSR. Instead of seeing the process as an "audit", the firm began to view it as an opportunity to have its client, the U.S. Government, conduct a benchmark of their process against the Government's expectations.

### **The Benefits**

As a result of J.A. White & Associates, Inc.'s processes, the firm was able to not only obtain a CPSR-Compliant subcontracting system, but it also obtain other benefits such as:

- Increased spending with socially and economically disadvantaged businesses.
- Increase the amount of competition in subcontracting.
- Realize cost savings and reductions in cycle times in the processing of Government "Red Tape" due to unnecessary process based on out dated regulations.
- Implement a web based subcontractor-rating system.
- Implement an on-going training program.

Although this case study involves a firm that markets services to the U.S. Government, corporate compliance and risk management within the supply management function should be a concern with all firms.

For additional information regarding the implementation of a risk management and corporate compliance program for your firm, you may contact:



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