

Naval Audit Service



Audit Report



Management of Special Tooling and Special Test Equipment at Space and Naval Warfare Systems Command

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N2009-0016

23 December 2008

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MEMORANDUM FOR COMMANDER, SPACE AND NAVAL WARFARE
SYSTEMS COMMAND

Subj: **MANAGEMENT OF SPECIAL TOOLING AND SPECIAL TEST
EQUIPMENT AT SPACE AND NAVAL WARFARE SYSTEMS
COMMAND (AUDIT REPORT N2009-0016)**

Ref: (a) NAVAUDSVC memo N2007-NAA000-0076.000, dated 21 February 2008
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

1. The report provides results of the subject audit announced in reference (a). Section A of this report provides our finding and recommendation, summarized management responses, and our comments on the responses. Section B provides the status of the recommendation. The full text of management responses is included in the Appendix.
2. Actions planned by Commander, Space and Naval Warfare Systems Command meet the intent of the recommendations. These recommendations are considered open pending completion of the planned corrective actions, and are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after target completion date. Please provide all correspondence to the Assistant Auditor General for Research, Development, Acquisition, and Logistics Audits, [REDACTED], with a copy to the Director, Policy and Oversight, [REDACTED]. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.
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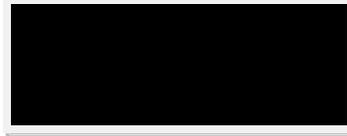
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Executive Summary

Overview

The Fiscal Year (FY) 2006 Department of the Navy (DON) Corporate Risk Assessment reported that DON does not have an accurate inventory of all Special Tooling and Special Test Equipment (ST/STE). ST/STE is a subset of Government Furnished Equipment (GFE). Further, the FY 2008 Risk Assessment reported a risk that DON does not have an accurate inventory of GFE. The Office of the Secretary of Defense (OSD) estimated that the total value of Department of Defense (DoD) GFE, including ST/STE assets, to be in excess of \$30 billion. According to the FY 2006 Risk Assessment, OSD valued DON ST/STE at more than \$4 billion.

The Naval Audit Service (NAVAUDSVC) obtained an inventory listing of Space and Naval Warfare Systems Command (SPAWAR) ST/STE from the DoD Contract Property Management System (CPMS), which identified 73 contracts containing ST/STE. As of June 2008, we requested ST/STE inventory information from contractor inventory systems, which are considered the official Government records per Federal Acquisition Regulation (FAR) Subpart 52.245-1. We requested this information through the Defense Contract Management Agency (DCMA) Property Administrators (PAs) for 51 of the 73 contracts, which accounted for 2,626 Navy-owned ST/STE items. The documentation provided showed that SPAWAR was responsible for at least \$83.6 million of Navy ST/STE. This ST/STE was in the possession of contractors and included 137 items of ST valued at \$1.1 million and 2,489 items of STE valued at \$82.5 million.

FAR Subpart 2.101 defines ST as items which are of such a specialized nature that without substantial modification or alteration their use is limited. The FAR Subpart 2.101 defines STE as single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in performing a contract.

DoD Instruction 5000.64 requires that the heads of DoD components be accountable for and manage all property acquired, leased, or otherwise obtained throughout an asset's life cycle, and establish accountable property systems of record. DoD components include OSD, the military departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the DoD, the Defense Agencies, the DoD Field Activities, and all other organizational entities within DoD.

DoD Directive 5105.64 requires the Director, DCMA, to perform contract administrative service functions in accordance with the FAR and Defense Federal Acquisition Regulation Supplement (DFARS), Part 42. The only exception is that DCMA will not normally provide contract administrative service support on ammunition contracts, Navy Supervisor of Shipbuilding contracts, and Office of Naval Research contracts, unless requested by the cognizant military department.

We audited the inventory management process for ST/STE at SPAWAR and affiliated Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A)) and Undersecretary of Defense (Acquisition, Technology, and Logistics (USD AT&L)) Program Executive Offices (PEOs) to determine SPAWAR's accountability and visibility of its portion of Navy-owned ST/STE. We conducted the audit between 24 March 2008 and 7 November 2008.

Reason for Audit

Our objective was to verify that SPAWAR processes and controls ensure accountability and visibility of Navy-owned ST/STE.

GFE, of which ST/STE is a subset, was identified as an area of concern in the FY 2008 and FY 2006 Department of the Navy (DON) Corporate Risk Assessments.

Noteworthy Accomplishment

As part of the audit, we reviewed the ethics program at SPAWAR. We found SPAWAR took a proactive approach to ensure an ethical work environment. SPAWAR ensured that required personnel submitted financial disclosure reports, took appropriate ethics training, and followed proper procedures if they worked for contractors after leaving SPAWAR. The ethics policies and procedures we reviewed were thorough, informative, and current in relating ethical guidelines. SPAWAR's ethics program satisfied the DoD 5500.7-R and Executive Order 12731 requirements for establishing an ethical work environment.

Conclusions

We found, with few exceptions, SPAWAR ST/STE was fully accounted for (i.e., all of the ST/STE we audited that should be at contractor locations, per available inventory records, was at those locations). SPAWAR achieved this accountability through its delegation of contract oversight to DCMA. SPAWAR's delegation of contract oversight to DCMA is in compliance with DoD Directive 5105.64. We determined that DCMA performs

reviews of the contractor property control information systems, conducts physical inventories of Navy tooling and equipment, and investigates lost, stolen, damaged, and destroyed items. Additionally, we were able to account for 99 percent of statistically sampled ST/STE located at contractor facilities.

Inventory Management Needs Improvement. SPAWAR’s internal inventory management process does not provide timely reporting (relaying useful and accurate information in a reasonable period of time) and complete visibility (being able to see clearly what one is responsible for) of its portion of Navy ST/STE. This condition exists contrary to Secretary of the Navy Instruction 5200.35E, which requires timely and reliable information to be attainable. The instruction requires that timely and reliable information be obtained, maintained, and used for decision making. Rather than relying on available inventory information from official contractor inventory systems, SPAWAR used a data call process for obtaining ST/STE inventory information that was incomplete, inaccurate, and unreliable. We found that SPAWAR was unable to accurately provide visibility over at least \$83.6 million of its ST/STE. We also determined there was limited communication between SPAWAR and the Administrative Contracting Officers (ACOs) and PAs who oversee the inventory, which led to inaccurate reporting of ST/STE inventory results. SPAWAR’s inability to provide timely reporting and complete visibility for its portion of Navy-owned ST/STE could result in the absence of important inventory information required for informed program decisions. As a result, SPAWAR could potentially make unnecessary expenditures for ST/STE items already in inventory because accurate and readily available information about its ST/STE is not maintained.

Command Ethics Program. During the audit, we also reviewed SPAWAR’s ethics program. We determined that the command did have an effective ethics program in place in terms of the systems, processes, procedures, etc., to reasonably ensure compliance with DoD 5500.7-R, “Joint Ethics Regulation,” and Executive Order 12731, “Principles of Ethical Conduct for Government Officers and Employees.”

Communication with Management. Throughout the audit, we kept SPAWAR informed of the conditions noted. Specifically, on 3 April 2008, we briefed our results to date to the SPAWAR Director of Contracts, and on 22 October 2008, we utilized the draft report via a Video Teleconference with SPAWAR’s Deputy Director of Contracts and Head of Contracts Policy.

Federal Managers’ Financial Integrity Act

The Federal Managers’ Financial Integrity Act (FMFIA) of 1982, as codified in Title 31, United States Code, requires each Federal Agency head to annually certify the effectiveness of the agency’s internal and accounting system controls. In our opinion, although there are no Managers’ Internal Control (MIC) Program assessable units specifically for ST/STE, the conditions noted in this report do not warrant reporting in the

Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy.

Corrective Actions

We recommend that the Office of the Commander, Space and Naval Warfare Systems Command, develop and implement an efficient and effective management process to provide visibility of ST/STE inventory. The development and implementation of this management process should include the use of the most reliable, timely, and readily available sources of data and more frequent communication between SPAWAR, DCMA, and contractors to determine the current status of ST/STE. We also recommend a central office/point of contact be established for SPAWAR management of ST/STE inventory to ensure ST/STE data is readily available, accurate, and can be used for decision making. In addition, assessable units for GFE should be included in the MIC Programs at all levels within SPAWAR.

A follow-on issue which will be addressed in a future report is the improvement and implementation of the Item Unique Identification (IUID) Registry. Currently the only centralized system which could provide a clear listing of ST/STE inventory had been CPMS. This system was timely, provided centralized data, and based on our previous audit, provided reliable information. But with the implementation of the IUID Registry, contractors are no longer required to input inventory information into CPMS, which had caused this database to be increasingly and significantly incomplete. Eventually, CPMS will contain a minimal amount of inventory information as contractors input new inventory information into the IUID Registry. For that registry (designed to capture inventory values for inclusion in DoD financial statements) to be of value for inventory management purposes, IUID would have to be modified to include additional fields and data, such as detailed property classification data fields. Because this is DON-wide systemic problem and vulnerability, and not unique to SPAWAR, this issue and recommendations for corrective action will be addressed in a ST/STE summary roll-up report.

Actions planned by Commander, Space and Naval Warfare Systems Command meet the intent of the recommendations. These recommendations are considered open pending completion of the planned corrective actions.

Section A:

Finding, Recommendations, and Corrective Actions

Finding: Accountability and Visibility of Navy-Owned Special Tooling/Special Test Equipment

Synopsis

With few exceptions, Space and Naval Warfare Systems Command (SPAWAR) fully accounted for its Special Tooling/Special Test Equipment (ST/STE). SPAWAR achieved this accountability through the delegation of contract oversight to the Defense Contract Management Agency (DCMA). SPAWAR's delegation of oversight is in compliance with the Department of Defense Directive (DoDD) 5105.64 requirements, as determined through interviews conducted with SPAWAR and DCMA personnel. We also requested ST/STE inventory from contractor personnel and reviewed the Contract Property Management System (CPMS) database to determine its accuracy and completeness. We statistically sampled and analyzed ST/STE inventory records, as of June 2008, from official contractor inventory systems, which are annually reviewed by DCMA. The results of our statistical sampling and analysis showed that 99 percent of the items were accounted for at contractor sites. We also reviewed ST/STE inventory documentation associated with the receiving, transfer, and disposal of ST/STE, as well as related contract administration and oversight documentation.

Inventory Management Needs Improvement. SPAWAR's inventory management processes and controls do not provide readily accessible, complete, or corporate visibility of its portion of Navy ST/STE. DoD Instruction 5000.64 requires heads of the DoD components (including Commander, SPAWAR) to account for, and manage all property throughout an asset's life cycle, and establish accountable property systems. SPAWAR's own ST/STE inventory management process does not provide complete, accurate, or reliable visibility of its total ST/STE with a value of at least \$83.6 million.¹ Among the causes for this condition was SPAWAR's management approach and business practice of over-relying on DCMA's contract oversight as a substitute for ST/STE inventory accountability needed to ensure visibility. SPAWAR's approach included:

¹ Based on the Property Administrator (PA) data call results.

- Reliance on an inefficient and ineffective data call process;
- Limited communication between SPAWAR and the Administrative Contracting Officers (ACOs) and Property Administrators (PAs);
- No single person or office being designated as a central point of contact; and
- An absence of assessable units pertaining to Government Furnished Equipment (GFE) in the Managers' Internal Control (MIC) Programs of SPAWAR activities.

As a result, SPAWAR could not accurately provide visibility of its portion of Navy-owned ST/STE. Further, this situation creates a risk that could result in less-than-fully informed program decisions and, in turn, unnecessary hidden costs to SPAWAR programs. Based on our audit results, we concluded that SPAWAR and affiliated Program Executive Offices (PEOs) and SPAWAR Systems Centers (SSCs) need to establish a more proactive inventory management approach.

Discussion of Details

Background

The Fiscal Year (FY) 2006 Department of the Navy (DON) Corporate Risk Assessment reported that DON does not have an accurate inventory of all ST/STE. Further, the FY 2008 Risk Assessment includes a risk that DON does not have an accurate inventory of GFE. The total value of DoD GFE, including ST/STE assets, was estimated by the Office of the Secretary of Defense (OSD) to be in excess of \$30 billion. OSD estimated the value of Navy ST/STE to be about \$4 billion for FY 2006. The Naval Inventory Control Point, Philadelphia (NAVICP) has a database to account for aviation ST/STE; however, no database of ST/STE exists for SPAWAR.

The Federal Acquisition Regulation (FAR) Subpart 2.101 defines ST as items which are of such a specialized nature that, without substantial modification or alteration, their use is limited. The FAR Subpart 2.101 defines STE as single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing.

Pertinent Guidance

FAR provides definitions of ST/STE and prescribes policies and procedures for providing Government property to contractors, contractors' management and use of Government property, and reporting, redistributing, and disposing of contractor inventory.

DoD Instruction 5000.64, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," 2 November 2006, requires the heads of DoD components to be accountable for, and manage, all property acquired, leased, or

otherwise obtained throughout an asset's life cycle, and establish accountable property systems of record. Property records shall be kept current and suitable for audit. According to DoD 5000.64, DoD Components applies to OSD, the military departments, the Chairman of the Joint Chiefs of Staff, the combatant commands, the Office of the DoD Inspector General, the Defense agencies, the DoD field activities, and all other organizational entities within DoD.

DoD Directive 5105.64 “Defense Contract Management Agency (DCMA),” 27 September 2000, states the Director, DCMA, shall perform contract administrative services functions in accordance with the FAR and Defense Federal Acquisition Regulation Supplement (DFARS), Part 42, as amended, except that DCMA will not normally provide contract administrative services support on ammunition contracts, Navy Supervisor of Shipbuilding contracts, and Office of Naval Research contracts, unless requested by the cognizant military department.

DoD 5500.7-R, “Joint Ethics Regulation (JER),” 30 August 1993, provides a single source of standards of ethical conduct and ethics guidance, including direction in the areas of financial and employment disclosure systems, post-employment rules, enforcement, and training.

Executive Order 12731, “Principles of Ethical Conduct for Government Officers and Employees,” 17 October 1990, establishes fair and exacting standards of ethical conduct for all executive branch employees.

Secretary of the Navy Instruction 5200.35E, the “Department of the Navy (DON) Managers’ Internal Control (MIC) Program,” 8 November 2006, addresses management control and accountability. The required system of management control encompasses all programs and functions within DON. Management controls include the methods and procedures managers use to ensure that programs achieve their intended results, and that reliable and timely information is obtained, maintained, and used for decision making. Unreliable information that is causing unsound management decisions is considered a material weakness.

Audit Results

Accountability of Inventory

We found, through discussions with DCMA representatives and SPAWAR personnel, that SPAWAR delegates contract oversight to DCMA. We confirmed this was in accordance with DoDD 5105.64. The directive allows organizational entities such as SPAWAR to delegate contract oversight to DCMA. Through field work, we determined DCMA performs reviews of the contractor property control systems; conducts physical

inventories of Navy tooling and equipment; and investigates lost, theft, damaged, and destroyed items. We obtained documentation, such as shipping sheets; Lost, Theft, Damaged, and Destroyed (LTDD) reports; and e-mails that accounted for those items we could not physically verify.

We conducted a physical inventory of SPAWAR's ST/STE at selected sites to verify SPAWAR ST/STE information (see Exhibit F for details). In addition to selecting the items to physically verify, we statistically selected a separate ST/STE sample for contract verification. For these items, we reviewed the contracts to verify that ST/STE received from the data call was listed on them.

Based on a sample of 1,078 ST/STE items, valued at approximately \$55 million, from a sample universe of 1,848 items valued at approximately \$68.6 million, 1,074 ST/STE items were verified, and four ST/STE items were not verified (see Table 1). The four items not verified were due to the improper location of records or records not being updated. The \$68.6 million sample universe represents 82 percent of the \$83.6 million from the PA data call results (see Table 2). Based on our results, we are 95 percent confident that a 100 percent examination would produce an error rate of at most 1 percent.

Table 1. Sampling Results by Location

| Location | Item Universe | Value of Item Universe (in Millions) | Item Sample Size | Value of Items Sample (in Millions) | Items Verified | Value of Items Verified (in Millions) | Projected Verified Dollar Value |
|---|---------------|--------------------------------------|------------------|-------------------------------------|----------------|---------------------------------------|---------------------------------|
| Raytheon and Textron, Massachusetts ² | 123 | \$11,430,773 | 123 | \$11,430,773 | 123 | \$11,430,773 | \$11,430,773 |
| BAE, New Jersey | 262 | \$11,307,517 | 203 | \$9,040,725 | 203 | \$9,040,725 | \$11,307,517 |
| Rockwell Collins, Iowa | 470 | \$4,729,847 | 263 | \$2,394,947 | 263 | \$2,394,947 | \$4,729,847 |
| General Dynamics, Arizona ² | 104 | \$19,582,555 | 104 | \$19,582,555 | 104 | \$19,582,555 | \$19,582,555 |
| Northrop Grumman, Boeing and Raytheon, California | 880 | \$20,603,192 | 376 | \$11,588,081 | 372 | \$11,583,649 | \$20,595,313 |
| W R Systems, Virginia ² | 9 | \$972,499 | 9 | \$972,499 | 9 | \$972,499 | \$972,499 |
| TOTAL | 1,848 | \$68,626,383 | 1,078 | \$55,009,580 | 1,074 | \$55,005,148 | \$68,618,504 |

² 100 percent of the items were verified at these locations (see Methodology).

Visibility of Inventory

SPAWAR's inventory management processes and controls do not provide readily accessible, complete, or corporate visibility of its portion of Navy ST/STE. We found that SPAWAR's use of data calls for its ST/STE inventory management reporting process was inefficient, and produced inaccurate and unreliable results. When we initially requested ST/STE inventory, SPAWAR provided data that was obtained from a CPMS ST/STE inventory report. When our analysis determined that CPMS was erroneous, SPAWAR HQ suggested that a data call be performed. SPAWAR conducted the data call by requesting information from its PEOs and SSCs. SPAWAR personnel consulted PEO Space Systems; PEO Command, Control, Communications, Computers, and Intelligence (C4I); Joint Program Executive Office (JPEO) Joint Tactical Radio System (JTRS); PEO Littoral and Mine Warfare (LMW); SSC Pacific; and SSC Atlantic to obtain a complete ST/STE inventory.

In addition, we obtained ST/STE information from PAs responsible for approving contractor inventory systems, (hereafter referred to as the PA data call) which represent official Government records per FAR Subpart 52.245-1. Through discussions with the PAs, we confirmed they had limited contact with SPAWAR to verify any ST/STE inventory information.

SPAWAR Headquarters (HQ)

We requested ST/STE inventory totals from SPAWAR. We met with SPAWAR HQ in March 2008, and they provided a partial property report (from CPMS), which listed two items of ST/STE valued at \$2,800. We also obtained a CPMS inventory report, as of 12 December 2007, which documented 2,493 SPAWAR ST/STE items valued at \$62 million. SPAWAR reviewed both CPMS documents and agreed its information was incomplete, inaccurate, and unreliable. SPAWAR later provided us with a revised submission for its ST/STE inventory.

We, with SPAWAR HQ, reconciled CPMS ST/STE inventory data and established a current inventory baseline of \$61 million. Based on the reconciliation, we determined SPAWAR's response was incomplete, inaccurate, and unreliable for various reasons, primarily: DCMA's misunderstanding of the data requested by SPAWAR, SPAWAR not being able to directly query CPMS, and the absence of a management process to obtain ST/STE information from its PEOs and SSCs.

Further analysis of CPMS showed ST/STE inventory information was significantly incomplete. We determined this was caused by the implementation of a new inventory system, Item Unique Identification (IUID) Registry. Based on a policy memorandum issued by the Office of the Under Secretary of Defense (OUSD) Acquisition, Technology, and Logistics (AT&L), once inventory is entered into IUID, it is no longer required to be entered into CPMS. As a result, neither CPMS nor IUID now provides a

complete inventory of ST/STE. Additionally, IUID does not classify Government property as either ST or STE. Instead, ST, STE, Government Furnished Material, Other Plant Equipment, and Industrial Plant Equipment, are comingled without classification. Therefore, neither CPMS nor IUID could be used for the verification or effective management of ST/STE. SPAWAR should request an update of the IUID Registry, to include property classification data fields, to support the input of ST/STE in this system.

Based on our analysis and SPAWAR HQs lack of confidence in the CPMS data, we, along with SPAWAR HQ, determined the PEOs and SSCs needed to perform ST/STE inventory data calls.

PEOs and SSCs

We then met with PEOs and SSCs and requested they perform data calls to provide us listings of their ST/STE inventory. SPAWAR HQ established deadlines for responding to the data calls. We agreed the ST/STE inventory information would be provided within 6 weeks of our request. We received most of the PEO responses within 7 to 12 weeks of the agreed upon deadlines, if any information was received at all. For instance, on 20 May 2008, PEO LMW agreed to provide their complete ST/STE inventory by 2 June 2008. However, they asked for two extensions and we did not receive their data until 14 July 2008. PEO Space, PEO C4I, and JPEO JTRS did not provide data for a total of 14 contracts valued at \$15.9 million based on PA data call results. Only SSC responses were received on time.

Based on our analysis of the SPAWAR data call responses, we concluded the ST/STE inventory results were incomplete, inaccurate, and unreliable. Table 2 outlines the reported ST/STE inventory dollar amounts for each activity from the three sources used to obtain SPAWAR ST/STE data. These three sources of data were:

1. CPMS, which represents a DoD database which collects Government property information including ST/STE. The report we obtained from CPMS showed SPAWAR ST/STE valued at \$61 million on 73 contracts.
2. SPAWAR's data call, which represents ST/STE inventory information provided by the PEOs and SSCs for 73 contracts requested. SPAWAR's data call totaled \$75.8 million, but information was not received for 14 of the 73 contracts.
3. PA data call, which represents ST/STE inventory information provided from official contractor inventory systems for 51 of the 73 SPAWAR contracts.³ The PA data call valued ST/STE for the 51 contracts at \$83.6 million.

³ 51 contracts were selected based on PAs having three or more contracts assigned to them or for contracts with more than \$1 million in ST/STE reported in CPMS.

Table 2. Sources of SPAWAR ST/STE Data

| | No. of Contracts | CPMS | No. of Contracts | SPAWAR Data Call | No. of Contracts | PA Data Call | Projected Dollar Value |
|---------------------------|------------------|--------------|------------------|------------------|------------------|----------------|------------------------|
| PEO Space | 2 | \$10.1M | 1 | \$46.7M | 2 | \$37.5M | \$33.5M |
| PEO C4I | 29 | \$19.7M | 17 | \$2.0M | 21 | \$14.3M | \$11M |
| JPEO JTRS | 5 | \$17.5M | 4 | \$14.3M | 5 | \$21.5M | \$16M |
| PEO LMW | 8 | \$0.8M | 8 | \$0 | 7 | \$0.6M | \$0.3M |
| SSC PAIFIC & SSC ATLANTIC | 29 | \$12.9M | 29 | \$12.9M | 16 | \$9.7M | \$7.8M |
| ST/STE Totals | 73 | \$61M | 59 | \$75.9M | 51 | \$83.6M | \$68.6M |

We performed audit work using the data supplied by PAs from the contractor inventory systems (official Government records per FAR Subpart 52.245-1). Based on the audit work performed at sites we selected, we concluded the PA data call represented the most accurate and reliable source of data (see Exhibit F).

PEO Space Systems. CPMS reported PEO Space had two contracts with ST/STE that totaled \$10.1 million. The SPAWAR data call for PEO Space Systems reported ST/STE for one contract valued at \$46.7 million and reported nothing for the second contract. The \$46.7 million represented approvals of ST/STE to be purchased as well as actual ST/STE already purchased. The PA data call reported ST/STE inventory valued at \$37.5 million for contracts N00039-04-C-2009 and N00039-88-C-0300. For Contract N00039-04-C-2009, the PA data call reported ST/STE valued at \$30.4 million and Contract N00039-88-C-0300 reported \$7.1 million. Of the \$37.5 million reported by the PA data call, we sampled from \$33.6 million.⁴ The SPAWAR data call for PEO Space Systems was incomplete and inaccurate because it reported nothing for Contract N00039-88-C-0300 while CPMS and the PA data call reported ST/STE for both contracts, and Contract N00039-04-C-2009 included ST/STE approvals for items not yet purchased.

We used attribute statistical sampling techniques in addition to judgmental sampling in our analysis of ST/STE accountability. To lend credibility and credence to the results of this analysis, we used the expert advice and assistance of the statistician at NAVAUDSVC. Based on our discussions with the statistician, we decided to use a stratified statistical sample of equipment records from the judgmentally selected facilities. We developed a sample of \$24.7 million for PEO Space Systems (see

⁴ Some items were excluded due to not being at the site visit locations.

Exhibit G). Based on our verification, we projected a total dollar value for ST/STE of at least \$33.5 million out of \$33.6 million. We are 95 percent confident the error rate did not exceed 5 percent.

PEO C4I. CPMS reported PEO C4I had 29 contracts with ST/STE that totaled \$19.7 million. The SPAWAR data call for PEO C4I reported ST/STE valued at \$2 million covering 17 contracts. For two of 17 contracts, PEO C4I reported a value of \$2 million. For 15 of the 17 contracts, PEO C4I reported no ST/STE on these contracts. There were an additional 12 contracts, for which PEO C4I provided no ST/STE inventory information. For the PA data call, we received ST/STE inventory information for 21 contracts with a value of \$14.3 million. Of the \$14.3 million reported by the PA data call, we sampled from \$11 million.⁴ We concluded that PEO C4I also had incomplete, inaccurate, and unreliable information when compared to contractor inventory systems (official Government records per FAR Subpart 52.245-1).

We used attribute statistical sampling techniques in addition to judgmental sampling in our analysis of ST/STE accountability. To lend credibility and credence to the results of this analysis, we used the expert advice and assistance of the statistician at NAVAUDSVC. Based on our discussions with the statistician, we decided to use a stratified sample from the judgmentally selected facilities. We developed a sample of \$11 million for PEO C4I (see Exhibit G). Based on our verification, we projected a total dollar value for ST/STE of at least \$11 million. We are 95 percent confident the error rate did not exceed 5 percent.

JPEO JTRS. CPMS reported JPEO JTRS had 5 contracts with ST/STE that totaled \$17.5 million. The SPAWAR data call for JPEO JTRS reported ST/STE valued at \$14.3 million for 4 of their 5 contracts. The SPAWAR data call amounts for the four contracts were the same as reported in CPMS. We received no ST/STE information for the remaining contract. We received ST/STE inventory information from the PA data call for all 5 JPEO JTRS contracts which reported ST/STE valued at \$21.5 million. Of the \$21.5 million reported by the PA data call, we sampled from \$16 million.⁴ We concluded SPAWAR's data call response for JPEO JTRS was incomplete when compared to contractor inventory systems (official Government records per FAR Subpart 52.245-1).

We used attribute statistical sampling techniques in addition to judgmental sampling in our analysis of ST/STE accountability. To lend credibility and credence to the results of this analysis, we used the expert advice and assistance of the statistician at NAVAUDSVC. Based on our discussions with the statistician, we decided to use a stratified sample from the judgmentally selected facilities. We developed a sample of \$11.4 million for JPEO JTRS (see Exhibit G). Based on our verification, we projected a total dollar value for ST/STE of at least \$16 million. We are 95 percent confident the error rate did not exceed 5 percent.

PEO LMW. CPMS reported PEO LMW had contracts with ST/STE that totaled \$800,000. The SPAWAR data call for PEO LMW reported ST/STE valued at zero dollars for 8 contracts. PEO LMW stated the ST/STE had been dispositioned or no ST/STE information was available. Although PEO LMW is supported by the Naval Sea Systems Command (NAVSEA), SPAWAR provides support services for the LMW contracts and is responsible for managing the ST/STE associated with those contracts. We received ST/STE inventory information from the PA data call for 2 contracts valued at \$556,000. Of the \$556,000 reported by the PA data call, we sampled from \$319,000.⁴ Since no ST/STE information was provided, the SPAWAR data call response for PEO LMW was incomplete and inaccurate.

We used attribute statistical sampling techniques in addition to judgmental sampling in our analysis of ST/STE accountability. To lend credibility and credence to the results of this analysis, we used the expert advice and assistance of the statistician at NAVAUDSVC. Based on our discussions with the statistician, we decided to use a stratified sample from the judgmentally selected facilities. We developed a sample of \$206,000 for PEO LMW (see Exhibit G). Based on our verification, we projected a total dollar value for ST/STE of at least \$319,000. We are 95 percent confident the error rate did not exceed 5 percent.

SSC Pacific and SSC Atlantic. CPMS reported SSC Pacific and SSC Atlantic had 29 contracts with ST/STE that totaled \$12.9 million. The SPAWAR data call for SSC Pacific and SSC Atlantic reported ST/STE valued at \$12.9 million for 29 contracts. Both SSCs stated they used CPMS, rather than a review of contracts or an internal database, to answer the data call. We received ST/STE inventory information from the PA data call for 16 contracts totaling \$9.7 million. For the same 16 contracts, the SPAWAR data call reported \$12.4 million and when compared to \$9.7 million from the PA data call, this resulted in a difference of \$2.7 million. Due to this difference, we determined the SPAWAR data call response for the SSCs to be inaccurate and unreliable. Of the \$9.7 million reported by the PA data call, we sampled from \$7.8 million.⁴

We used attribute statistical sampling techniques in addition to judgmental sampling in our analysis of ST/STE accountability. To lend credibility and credence to the results of this analysis, we used the expert advice and assistance of the statistician at NAVAUDSVC. Based on our discussions with the statistician, we decided to use a stratified sample from the judgmentally selected facilities. We developed a sample of \$7.8 million for SSC Pacific and SSC Atlantic (see Exhibit G). Based on our verification, we projected a total dollar value for ST/STE of at least \$7.8 million. We are 95 percent confident the error rate did not exceed 5 percent.

ST/STE Databases

As stated earlier in the report, we determined there were three sources of ST/STE inventory information. Two databases, CPMS and IUID, and each individual

contractor's property management system database overseen by DCMA Property Administrators. The only centralized system which could provide a clear listing of ST/STE inventory had been CPMS. This system was timely, provided centralized data, and based on our previous audit, provided reliable information. But with the implementation of the IUID Registry, contractors are no longer required to input inventory information into CPMS, which had caused this database to be increasingly and significantly incomplete. Eventually, CPMS will contain a minimal amount of inventory information as contractors input new inventory information into the IUID Registry. Without CPMS being complete and current, there was no other centralized database from which commands could obtain accurate ST/STE information.

The IUID Registry, which is currently being implemented, is another database that captures ST/STE inventory data. IUID is also a centralized database; however, this database is not useful for ST/STE inventory management due to the fact the information is only categorized as either Material or Equipment, making it difficult and tedious to determine which items are ST or STE.

Each contractor's management system database (each has their own separate database), also contained ST/STE inventory information. Although the ST/STE information contained in these different databases was reliable and complete, this process can be time consuming due to the fact that, to obtain needed inventory information, commands must request the data through each of DCMA's 36 Property Administrators, who are located at multiple geographically separated contractor facilities. Additionally, each contractor has its own unique database design and software, and data from the systems is not easily compiled into a central inventory that can be used for managing the overall inventory and making decisions.

With inventory information in CPMS substantially reduced, SPAWAR will also have to rely on the only other centralized database that will contain accurate and complete ST/STE inventory information; for SPAWAR or any other command, it will be the IUID Registry. For that registry, which was designed to capture inventory values for inclusion in DoD financial statements, to be of value for inventory management purposes, IUID would have to be modified to include additional fields and data, such as detailed property classification data fields. Because this is a DON-wide systemic problem and vulnerability, and not unique to SPAWAR, this issue and recommendations for corrective action, and will be addressed in a ST/STE summary roll-up report.

Conclusion

We found, with few exceptions, SPAWAR ST/STE was fully accounted for (i.e., all of the ST/STE that should be at contractor locations, per available inventory records, was at those locations). SPAWAR achieved this accountability through its delegation of contract oversight to DCMA. SPAWAR's delegation of contract oversight to DCMA is

in compliance with instruction DoDD 5105.64. We determined that DCMA performs reviews of the contractor property control systems; conducts physical inventories of Navy tooling and equipment; and investigates lost, stolen, damaged, and destroyed items. In addition, we accounted for 99 percent of sampled ST/STE located at contractor facilities.

However, SPAWAR does not have an ST/STE inventory management process that provides timely reporting (relaying useful and accurate information in a reasonable period of time) and complete visibility (being able to see clearly what one is responsible for) of its portion of Navy ST/STE. This condition is non-compliant with SECNAV Instruction 5200.35E. The instruction requires that timely and reliable information be obtained, maintained, and used for decision making. Rather than relying on an available inventory information system, SPAWAR used a data call process for obtaining ST/STE inventory information that we found to be incomplete, inaccurate, and unreliable. We found that SPAWAR was unable to accurately provide visibility over at least \$83.6 million of its ST/STE. We also determined there was limited communication between SPAWAR and the ACOs and PAs who oversee the inventory. SPAWAR's inability to provide timely reporting and complete visibility for its portion of Navy-owned ST/STE could result in less than fully informed program decisions, such as those regarding acquisition of the same or similar ST/STE items when such items may already be available in the inventory and unneeded at a different location, and unnecessary hidden costs to SPAWAR programs.

Recommendations and Corrective Actions

We recommend that the Commander, SPAWAR:

Recommendation 1. Develop and implement an efficient and effective management process to provide visibility of ST/STE inventory. The development and implementation of this management process should:

- Use the most reliable, timely, and readily available sources of data; and
- Include more frequent communication between SPAWAR, DCMA, and the contractor inventory personnel involved to determine the current status of ST/STE.

SPAWAR response to Recommendation 1. SPAWAR concurs that the SPAWAR ST/STE process can be improved, although it should be acknowledged that there are no known events or conditions that resulted in any poor program decisions related to ST/STE. Further, the Naval Audit Service confirmed that DCMA can identify ST/STE on SPAWAR contracts with few exceptions. Therefore, we recommend the following:

- Both the Naval Audit Service and DCMA formally request that the OSD IUID Registry be expeditiously updated to include the capturing of types of property, so that the database can be sorted for ST/STE.
- If the IUID Registry cannot be expeditiously updated to include the capturing of types of property, then we recommend that the DoD Contract Property Management System (CPMS) database be revived until the IUID Registry can capture types of property.
- SPAWAR requests, via its DCMA Customer Liaison Representative, that DCMA provide quarterly or semi-annual listings of SPAWAR Government property, sorted by contract number and to include identification of property types.
- SPAWAR update SPAWARINST 4860.14A, “Control, Accountability and Reduction of Government Property,” to provide guidance and direction on the handling and tracking of ST/STE.
- SPAWAR is scheduled for implementation of Navy Enterprise Resource Planning (NERP) in October 2009. NERP will have an inventory management module that will account for Sponsor Owned Material, of which ST/STE is a subset.
- Naval Audit Service request that the Deputy Assistant Secretary of the Navy (Acquisition & Logistics Management) develop or update the definition of ST/STE.

SPAWAR will complete the corrective action no later than 30 November 2009.

Naval Audit Service comment on SPAWAR response #1 to

Recommendation 1. Based on the following, Naval Audit Service requests minor updates to SPAWAR responses.

- a. Based on the audit and the development and investment in IUID, reinstatement of CPMS as a centralized system does not appear to contribute toward a viable future solution.
- b. Recommendations requiring more than 6 months to implement will require interim updates every 6 months.
- c. The latest version of FAR included an update to the definitions of ST/STE. These updates were added in December 2007 to FAR Subpart 2.101 - Definitions.

In subsequent communication on 12 December 2008, SPAWAR provided a second response to Recommendation 1 as follows:

- a. SPAWAR will continue to work with officials at both DCMA and the Deputy Assistant Secretary of the Navy (Acquisition and Logistics Management) to formally request that the OSD IUID Registry be expeditiously updated to include the capturing of property types to provide visibility over ST/STE and GFP in general.
- b. It is suggested that Naval Audit Service work with the DASN to pursue the critically needed update to the capability of the IUID.
- c. In addition, SPAWAR will provide the Naval Audit Service with an interim status update for all three recommendations by 31 May 2009.

Based on the updated response, SPAWAR's planned actions meet the intent of the recommendation, and this recommendation is open with an interim target date of 31 May 2009. In reference to item "b," a follow-on issue which will be addressed by Naval Audit Service in a future report is the improvement and implementation of the IUID Registry. A detailed discussion is given on page 4 in the "Corrective Actions" section of the Executive Summary in this report.

Recommendation 2. Establish a central office within SPAWAR with responsibility for management and oversight of ST/STE inventory.

SPAWAR Response to Recommendation 2. SPAWAR concurs and will establish a central point of contact (POC) for ST/STE visibility and reporting. SPAWAR will complete the corrective action no later than 30 November 2009.

Naval Audit Service comment on SPAWAR response to Recommendation 2. The SPAWAR planned actions meet the intent of the recommendation if visibility and reporting functions are included as a part of POC management of ST-STE inventory. Because the target date is more than 6 months from the date of publication of this report, SPAWAR agreed to give Naval Audit Service a status report on 31 May 2009.

Recommendation 3. Include assessable units for GFE in SPAWAR/PEO/SSC MIC Programs.

SPAWAR Response to Recommendation 3. SPAWAR concurs and will work with the SPAWAR Inspector General office to determine if development of an assessable unit, or an element within an existing assessable unit, can be incorporated into the SPAWAR Contracts or SPAWAR Readiness and Logistics competency portion of the SPAWAR Managers' Internal Control Program. SPAWAR will complete the corrective action no later than 30 November 2009.

Naval Audit Service comment on SPAWAR response to Recommendation 3. The SPAWAR planned actions meet the intent of the recommendation, in

that they agree to include assessable units in their management control program using one of the two methods discussed in their response. Because the target date is more than 6 months from the date of publication of this report, SPAWAR agreed to give Naval Audit Service a status report on 31 May 2009.

For additional comments, please see Appendix A.

Section B:

Status of Recommendations

| RECOMMENDATIONS | | | | | | |
|----------------------|----------|----------|--|---------------------|--|----------------------------------|
| Finding ⁵ | Rec. No. | Page No. | Subject | Status ⁶ | Action Command | Target or Actual Completion Date |
| 1 | 1 | 15 | Develop and implement an efficient and effective management process to provide visibility of ST/STE inventory. The development and implementation of this management process should: <ul style="list-style-type: none"> • Use the most reliable, timely, and readily available sources of data; and • Include more frequent communication between SPAWAR, DCMA, and the contractor inventory personnel involved to determine the current status of ST/STE. | O | Space and Naval Warfare Systems Command (SPAWAR) | 5/31/2009 |
| 1 | 2 | 17 | Establish a central office within SPAWAR with responsibility for management and oversight of ST/STE inventory. | O | SPAWAR | 5/31/2009 |
| 1 | 3 | 17 | Include assessable units for GFE in SPAWAR/PEO/SSC MIC Programs. | O | SPAWAR | 5/31/2009 |

⁵ / + = Indicates repeat finding

⁶ / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress.

Background

Special Tooling and Special Test Equipment (ST/STE)

The Federal Acquisition Regulation (FAR) Subpart 2.101 defines ST as “jigs, dies, fixtures, molds, patterns, taps, gauges, and all components of these items including foundations and similar improvements necessary for installing special test equipment, and which are of such a specialized nature that without substantial modification or alteration their use is limited to the development or production of particular supplies or parts thereof or to the performance of particular services. Special tooling does not include material, special test equipment, real property, equipment, machine tools, or similar capital items.”

The FAR Subpart 2.101 defines STE as “either single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in performing a contract. It consists of items or assemblies of equipment including foundations and similar improvements necessary for installing special test equipment, and standard or general purpose items or components that are interconnected and interdependent so as to become a new functional entity for special testing purposes. Special test equipment does not include material, special tooling, real property, and equipment items used for general testing purposes or property that with relatively minor expense can be made suitable for general purpose use.”

ST/STE is one of the subcategories of Government Furnished Equipment (GFE). GFE includes material required to satisfy specific contract requirements for development, production, or production support.

OSD estimated the value of Navy ST/STE to be approximately \$4 billion as of FY 2006. The Naval Inventory Control Point (NAVICP) has a database for aviation ST/STE; however, no database of ST/STE exists for the Space and Naval Warfare Systems Command (SPAWAR). Therefore, SPAWAR is dependant upon outside sources to report its ST/STE with no independent means of verifying any external database information.

Administrative Contracting Officers (ACOs) and Property Administrators (PAs)

The Defense Contract Management Agency (DCMA) functions as the Administrative Contracting Officers (ACOs) for SPAWAR. The ACOs are responsible for administering the terms of the contracts on behalf of the contracting office. The Property Administrators (PAs) act on behalf of the ACOs to administer the terms of the contract

that specify the contractor's obligations to acquire, control, use, care for, report, and dispose of Government property.

Contract Property Management System

The Contract Property Management System (CPMS) is used by the Department of Defense (DoD) to track Government property in the possession of contractors. Each year, contractors submit DD Form 1662s, which list a total count of Government property in their possession, into the CPMS database. The data in CPMS reports total inventory counts for each contract.

Item Unique Identification

The Item Unique Identification (IUID) registry is a new system being used to track items through their life cycle. IUID permanently identifies an individual item distinctly from all other individual items that DoD purchases, and provides for marking personal property items with a machine-readable Unique Item Identifier, which is a set of globally unique data elements. All DoD assets must be IUID compliant by 31 December 2010 unless the asset meets exempt criteria. Once items have been entered into IUID, contractors are no longer required to submit DD Form 1662s to update CPMS. As a result, CPMS does not provide a complete picture of Government property due to the implementation of IUID. IUID only categorizes property as either Material (M) or Equipment (E). Therefore, we could not determine how much ST/STE had been entered into the system.

SPAWAR has begun implementation of IUID. Although some ST/STE information had already been input into the system, IUID did not contain all SPAWAR ST/STE information. Due to IUID's limitations in providing property classification and being in the initial phases of implementation, data was requested from contractor inventory systems to obtain SPAWAR ST/STE data.

Scope and Methodology

Scope

The Naval Audit Service conducted this audit, “Management of Special Tooling and Special Test Equipment (ST/STE) at Space and Naval Warfare Systems Command (SPAWAR)” for the Department of the Navy (DON). We conducted the audit between 24 March 2008 and 7 November 2008. We visited and/or contacted officials at each location identified in Exhibit E.

The objective of this audit was to verify that SPAWAR processes and controls ensure accountability and visibility of Navy owned ST/STE. The audit team requested ST/STE information and management control procedures.

We also requested ST/STE information from the Defense Contract Management Agency (DCMA); the Department of Defense Contractor Property Management System (DoD CPMS); the Naval Supply Systems Command (NAVSUP); Program Executive Office (PEO) Command, Control, Communications, Computers, and Intelligence (C4I); Joint Program Executive Office (JPEO) Joint Tactical Radio System (JTRS); PEO Littoral and Mine and Warfare (LMW); PEO Space Systems; SPAWAR Systems Center (SSC) Pacific; and SSC Atlantic.

We reviewed the Managers’ Internal Control (MIC) Programs for SPAWAR Headquarters (HQ), PEOs, and Echelon III activities. We also completed a review of the ethics program at SPAWAR Headquarters and obtained information to determine the fraud risk.

An audit report on the “Management of ST/STE at the Naval Sea Systems Command (NAVSEA)” was issued 24 January 2008 (Naval Audit Service Report N2008-0019).

Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence and results obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

We conducted meetings with SPAWAR personnel and Property Administrators (PA) responsible for the management of SPAWAR owned ST/STE. We requested their inventory management process used to ensure accountability and visibility of SPAWAR owned ST/STE. Data quality was sufficient for the purpose of this audit based on the fact it represented official Government records per the FAR Subpart 52.245-1.

DCMA Inventory

We contacted DCMA to request an inventory of SPAWAR owned ST/STE. We received the SPAWAR ST/STE inventory from the DoD CPMS database, as of 26 March 2008, totaling \$61 million. The inventory identified SPAWAR contracts with ST/STE, the total number of line items and their associated values.

ST/STE Inventory from SPAWAR

We requested a complete inventory from SPAWAR to determine the total amount of ST/STE owned by SPAWAR. Their initial submission of ST/STE inventory totaled \$2,800. They resubmitted an ST/STE listing from CPMS, which we reconciled with our CPMS data to develop a baseline amount.

SPAWAR then decided to perform a data call to provide a complete listing of its ST/STE. For the SSCs, a listing of contracts from the CPMS database was supplied to the respective activities, and we requested they submit the ST/STE associated with those contracts. We asked PEO C4I and PEO Space Systems to submit a listing of their contracts with ST/STE.

During the data call, PEO C4I stated that some of the contracts under the SPAWAR Unique Identification Code (UIC) belonged to Joint Program Executive Office (JPEO) JTRS and PEO Littoral and Mine Warfare (LMW). As a result, a data call was issued requesting their ST/STE inventories as well.

PA Data Call. Due to the inconsistent information received from SPAWAR's data call results as compared to CPMS, we requested ST/STE information from the PAs through our own data call for 51 out of the 73 SPAWAR contracts with ST/STE. These 51 contracts were selected for the PAs having three or more contracts assigned to them or for contracts with more than \$1 million in reported ST/STE. The PAs were asked to supply the total ST/STE dollar amount and quantity assigned to the contracts. This information was obtained by the PAs from contractor inventory systems, which are approved by DCMA PAs and represent official Government records per FAR Subpart 52.245-1. The remaining 22 contracts did not meet the selection criteria.

We compared the results from the SPAWAR and PA data calls with the data reported in CPMS. For the 51 contracts we selected, CPMS reported 2,229 items valued at \$59.5 million, SPAWAR's data call produced 1,585 ST/STE items valued at \$75.4 million, and the PA listings totaled \$83.6 million with 2,626 ST/STE items.

Statistical Sampling

We used attribute statistical sampling techniques in addition to judgmental sampling in our analysis of ST/STE accountability. To lend credibility and credence to the results of this analysis, we used the expert advice and assistance of the statistician at NAVAUDSVC. Based on our discussions with the statistician, we decided to use a stratified sample from the judgmentally selected facilities. We relied on computer generated data provided by DCMA PAs using approved contractor inventory systems but performed no general and application control tests on these systems. However, we performed limited testing to determine the reasonableness of the data by comparing the data in the contractor systems to source contract documentation for selected ST/STE inventory.

Verifying the PA Data Call

We determined the PA information to be the most current and reliable data source due to the fact that contractors' official inventory systems were used as the source of the data. To verify the accuracy of the ST/STE information provided by the data call through the PAs, we conducted a physical inventory of a sample of ST/STE at selected sites (see Exhibit F). We sorted the ST/STE information received from the PAs by state and selected the top states with the greatest reported dollar amounts of ST/STE. The top states were Arizona, California, Massachusetts, New Jersey, and Iowa. For each state, we judgmentally selected contracts based on the following: (1) the largest reported deltas between the sources of ST/STE data, and (2) greatest representation of ST/STE ownership by each of the SPAWAR activities. Using a 95 percent confidence level, a 5 percent critical error rate, and EZ Quant statistical software, sample sizes of ST/STE items were drawn for the selected contracts to verify their accuracy. Once the sample sizes were calculated, we used a random number generator to select the items that we physically verified. For the Massachusetts and Arizona locations, we verified 100 percent of the items because the item count was small.

For the SPAWAR activities, the PA data call results reported \$83.6 million of ST/STE. To develop our sample, we selected contracts representing 82 percent of this amount, which totaled \$68.6 million. Based on the audit work performed and our sampling methodology, we have no reason to believe the PA data call results of \$83.6 million of SPAWAR ST/STE was inaccurate because the majority of items were included in the sample and the ST/STE is managed the same at all contractor locations.

Verifying Contract Documentation

In addition to selecting the items to physically verify, we selected a separate ST/STE sample for contract verification. For these items, we reviewed the contracts to verify that ST/STE was listed on them. In order to develop the sample, we combined the ST/STE item total for all of the selected contracts. Then, using EZ Quant statistical software, the required sample size was produced using a 90 percent confidence level. We then divided the sample equally among the five states to be visited. A 90 percent confidence level was used to reduce the required sample for reviewing the contracts. We used a random number generator to select the items for verification, and we requested documentation supporting the ST/STE on the specified contracts.

We also reviewed contracts to determine if disposition instructions were written in the accountable contracts. The Procuring Contracting Officer (PCO) follows these instructions to dispose of excess inventory. If the excess inventory is scrapped, meaning it has little to no value, any residual proceeds will be used to reduce the overhead associated with the contract. For disposed items that are sold, the proceeds go to the contract or the U.S. Treasury as miscellaneous receipts. If disposition instructions are not included for excess Government property, then the PCO provides the instructions in accordance with the FAR Subpart 52.245-1, which states contractors should not dispose of inventory until authorized by the PCO.

Management Controls

Secretary of the Navy Instruction 5200.35E, “Department of the Navy Managers’ Internal Control Program,” dated 8 November 2006, requires commanders/managers to incorporate basic management controls in the strategies, plans, guidance, and procedures governing their programs and operations.

We reviewed the management control procedures at SPAWAR to determine if they include management of ST/STE or Government Furnished Equipment (GFE).

We reviewed the inventory of assessable units for SPAWAR HQ, SPAWAR PEOs, and SSCs. With the exception of SSC Norfolk (now part of SSC Atlantic), which has an assessable unit for Government Furnished Property, we did not find assessable units at the other activities for ST/STE or GFE. This could be one of the causes contributing to the lack of visibility by the different SPAWAR activities, including HQ.

We also examined the MIC Program Plans for the same programs and found that SPAWAR HQ’s plan was in the process of being updated and was in draft form. PEO Space Systems’ MIC Program Plan had also not been updated. The other MIC Program Plans were current.

Ethics

Based on DoD 5500.7-R, “Joint Ethics Regulation” and Executive Order 12731, “Principles of Ethical Conduct for Government Officers and Employees,” we met with the legal department at SPAWAR Headquarters to discuss the ethics policies and procedures in place. We received information which was disseminated to all SPAWAR employees during employment and through retirement. There was a yearly report filed with the Office of Government Ethics (OGE) which gave the numbers of people who had taken training, the number of people employed, and the number of ethics violations filed for the previous year. The ethics policies and procedures covered not only SPAWAR HQ but the SSCs as well. Based on the information obtained, we concluded that SPAWAR’s ethics program met the DoD 5500.7-R and Executive Order 12731 criteria for implementation.

Exhibit C:

Acronym Listing

| | |
|-----------|--|
| ACO | Administrative Contracting Officer |
| C4I | Command, Control, Communications, Computers and Intelligence |
| CPMS | Contract Property Management System |
| DCMA | Defense Contract Management Agency |
| DFARS | Defense Federal Acquisition Regulation Supplement |
| DoD | Department of Defense |
| DoDD | Department of Defense Directive |
| DON | Department of the Navy |
| FAR | Federal Acquisition Regulation |
| FMFIA | Federal Managers' Financial Integrity Act |
| GAGAS | Generally Accepted Government Auditing Standards |
| GFE | Government Furnished Equipment |
| IUID | Item Unique Identification |
| JPEO | Joint Program Executive Office |
| JTRS | Joint Tactical Radio System |
| LMW | Littoral and Mine Warfare |
| LTDD | Lost, Theft, Damaged, and Destroyed |
| MIC | Managers' Internal Control |
| NAVAUDSVC | Naval Audit Service |
| NAVICP | Naval Inventory Control Point |
| NAVSEA | Naval Sea Systems Command |
| NAVSUP | Naval Supply System Command |
| OGE | Office of Government Ethics |
| OSD | Office of Secretary of Defense |
| PA | Property Administrator |
| PCO | Procuring Contracting Officer |
| PEO | Program Executive Office |
| SECNAV | Secretary of the Navy |
| SPAWAR | Space and Naval Warfare Systems Command |
| SSC | SPAWAR Systems Center |
| ST/STE | Special Tooling/Special Test Equipment |

Exhibit D:

Activities Visited and/or Contacted

| | |
|--|--------------------|
| BAE Systems | Wayne, NJ |
| Boeing Satellite Development Center | El Segundo, CA |
| Defense Contract Management Agency | Various Locations |
| General Dynamics C4 Systems | Scottsdale, AZ |
| Naval Inventory Control Point, Mechanicsburg | Mechanicsburg, PA |
| Naval Inventory Control Point, Philadelphia | Philadelphia, PA |
| Northrop Grumman Navigation Systems | Woodland Hills, CA |
| Raytheon Company | Marlborough, MA |
| Raytheon Technical Services Company | Chula Vista, CA |
| Rockwell Collins | Cedar Rapids, IA |
| Space and Naval Warfare Systems Command | San Diego, CA |
| SPAWAR Systems Center Atlantic | Charleston, SC |
| SPAWAR Systems Center Pacific | San Diego, CA |
| Textron Systems Corporation | Wilmington, MA |
| W R Systems LTD | Norfolk, VA |

Exhibit E:

Data Call Validation by Site

Raytheon Marlborough, MA and Textron Systems Wilmington, MA

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|------------------|--------------|--------------------|---------------------|------------------|----------------|------------------|
| N00039-03-D-0004 | PEO C4I | 4 | \$21,000 | 4 | 4 | 100 percent |
| N00039-97-D-0013 | PEO C4I | 43 | \$155,581 | 43 | 43 | |
| N00039-05-C-0061 | PEO C4I | 2 | \$520,000 | 2 | 2 | |
| N00039-98-C-0033 | PEO C4I | 1 | \$150,000 | 1 | 1 | |
| N00039-97-C-0030 | PEO C4I | 1 | \$300,000 | 1 | 1 | |
| N00039-97-C-0099 | PEO C4I | 3 | \$170,900 | 3 | 3 | |
| N00039-06-D-0004 | PEO C4I | 46 | \$9,327,580 | 46 | 46 | |
| N00039-98-D-0043 | PEO C4I | 3 | \$155,000 | 3 | 3 | |
| N00039-04-D-0033 | PEO C4I | 1 | \$10,000 | 1 | 1 | |
| N00039-04-C-0012 | PEO C4I | 1 | \$2,500 | 1 | 1 | |
| N00039-82-C-0146 | PEO C4I | 3 | \$52,451 | 3 | 3 | |
| N66001-98-C-6009 | SSC Pacific | 15 | \$565,761 | 15 | 15 | |
| | Total | 123 | \$11,430,773 | 123 | 123 | |

BAE Systems - Wayne, NJ

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|------------------|--------------|--------------------|---------------------|------------------|----------------|--------------------|
| N00039-00-D-2102 | JPEO JTRS | 125 | \$7,227,400 | 100 | 100 | 100 percent |
| N00039-00-D-2100 | JPEO JTRS | 104 | \$692,274 | 79 | 79 | |
| N00039-03-C-0008 | PEO C4I | 1 | \$339 | 1 | 1 | |
| N00039-96-C-0038 | JPEO JTRS | 32 | \$3,387,504 | 23 | 23 | |
| | Total | 262 | \$11,307,517 | 203 | 203 | 100 percent |

Rockwell Collins - Cedar Rapids, IA

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|------------------|--------------|--------------------|--------------------|------------------|----------------|--------------------|
| N00039-96-C-0038 | JPEO JTRS | 190 | \$1,815,012 | 109 | 109 | 100 percent |
| N00039-00-D-2100 | JPEO JTRS | 275 | \$2,836,630 | 151 | 151 | |
| N00039-02-C-3233 | PEO C4I | 3 | \$65,777 | 3 | 3 | |
| N00039-03-D-0085 | PEO C4I | 2 | \$12,428 | 0 | 0 | |
| | Total | 470 | \$4,729,847 | 263 | 263 | 100 percent |

General Dynamics - Scottsdale, AZ

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|-------------------------|-------------------|---------------------------|---------------------------|-------------------------|-----------------------|-------------------------|
| N00039-04-C-2009 | PEO Space Systems | 93 | \$19,511,634 | 93 | 93 | |
| N00039-98-D-0029 | PEO C4I | 8 | \$47,830 | 8 | 8 | |
| N00039-04-C-0022 | PEO C4I | 3 | \$23,091 | 3 | 3 | |
| | Total | 104 | \$19,582,555 | 104 | 104 | 100 percent |

Northrop Grumman - Woodland Hills, CA

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|-------------------------|--------------|---------------------------|---------------------------|-------------------------|-----------------------|-------------------------|
| N00039-01-C-2226 | PEO LMW | 24 | \$319,039 | 10 | 10 | |
| N66001-05-C-8038 | SSC Pacific | 13 | \$39,586 | 5 | 5 | |
| | Total | 37 | \$358,625 | 15 | 15 | 100 percent |

Boeing - El Segundo, CA

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|-------------------------|-------------------|---------------------------|---------------------------|-------------------------|-----------------------|-------------------------|
| N00039-04-C-2009 | PEO Space Systems | 571 | \$6,964,367 | 239 | 236 | |
| N00039-88-C-0300 | PEO Space Systems | 270 | \$7,075,850 | 120 | 119 | |
| | Total | 841 | \$14,040,217 | 359 | 355 | 99 percent |

Raytheon - Chula Vista, CA

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|-------------------------|--------------|---------------------------|---------------------------|-------------------------|-----------------------|-------------------------|
| N66001-98-D-0058 | SSC Pacific | 2 | \$6,204,350 | 2 | 2 | |
| | Total | 2 | \$6,204,350 | 2 | 2 | 100 percent |

W R Systems LTD - Norfolk, VA

| Contract | Owner | Total ST/STE Items | Total ST/STE Value | Item Sample Size | Items Verified | Percent Verified |
|-------------------------|--------------|---------------------------|---------------------------|-------------------------|-----------------------|-------------------------|
| N65236-02-D-3823 | SSC Atlantic | 9 | \$972,499 | 9 | 9 | |
| | Total | 9 | \$972,499 | 9 | 9 | 100 percent |

Exhibit F:

Samples by Contract for Each Activity

| Command | Contract | Item Universe Size | Item Universe Dollar Value | Sample Size | Sample Dollar Value | |
|------------------------------|--|--------------------|----------------------------|--------------|---------------------|-------------|
| PEO Space Systems | N00039-04-C-2009 | 664 | 26,476,001 | 332 | \$19,511,634 | |
| | N00039-88-C-0300 | 270 | \$7,075,850 | 120 | \$5,166,867 | |
| | Subtotal PEO Space | 934 | \$33,551,851 | 452 | \$24,678,501 | |
| PEO C4I | N00039-03-D-0004 | 4 | \$21,000 | 4 | \$21,000 | |
| | N00039-97-D-0013 | 43 | \$155,581 | 43 | \$155,581 | |
| | N00039-05-C-0061 | 2 | \$520,000 | 2 | \$520,000 | |
| | N00039-98-C-0033 | 1 | \$150,000 | 1 | \$150,000 | |
| | N00039-97-C-0030 | 1 | \$300,000 | 1 | \$300,000 | |
| | N00039-97-C-0099 | 3 | \$170,900 | 3 | \$170,900 | |
| | N00039-06-D-0004 | 46 | \$9,327,580 | 46 | \$9,327,580 | |
| | N00039-98-D-0043 | 3 | \$155,000 | 3 | \$155,000 | |
| | N00039-04-D-0033 | 1 | \$10,000 | 1 | \$10,000 | |
| | N00039-04-C-0012 | 1 | \$2,500 | 1 | \$2,500 | |
| | N00039-82-C-0146 | 3 | \$52,451 | 3 | \$52,451 | |
| | N00039-03-C-0008 | 1 | \$339 | 1 | \$339 | |
| | N00039-02-C-3233 | 3 | \$65,777 | 3 | \$65,777 | |
| | N00039-03-D-0085 | 2 | \$12,428 | 0 | \$0 | |
| | N00039-98-D-0029 | 8 | \$47,830 | 8 | \$47,830 | |
| | N00039-04-C-0022 | 3 | \$23,091 | 3 | \$23,091 | |
| | Subtotal PEO C4I | 125 | \$11,014,477 | 123 | \$11,002,049 | |
| | JPEO JTRS | N00039-00-D-2102 | 125 | \$7,227,400 | 100 | \$5,469,590 |
| | | N00039-00-D-2100 | 379 | \$3,528,904 | 230 | \$1,899,736 |
| | | N00039-96-C-0038 | 222 | \$5,202,516 | 132 | \$4,000,230 |
| Subtotal JPEO JTRS | | 726 | \$15,958,820 | 462 | \$11,369,556 | |
| PEO LMW | N00039-01-C-2226 | 24 | \$319,039 | 10 | \$206,548 | |
| | Subtotal PEO LMW | 24 | \$319,039 | 10 | \$206,548 | |
| SSC Pacific and SSC Atlantic | N66001-98-C-6009 | 15 | \$565,761 | 15 | \$565,761 | |
| | N66001-05-C-8038 | 13 | \$39,586 | 5 | \$10,316 | |
| | N66001-98-D-0058 | 2 | \$6,204,350 | 2 | \$6,204,350 | |
| | N65236-02-D-3823 | 9 | \$972,499 | 9 | \$972,499 | |
| | Subtotal SSC Pacific and SSC Atlantic | 39 | \$7,782,196 | 31 | \$7,752,926 | |
| TOTALS | | 1848 | \$68,626,383 | 1,078 | \$55,009,580 | |

Appendix A:

Management Response from Commander, Space and Naval Warfare Systems Command



DEPARTMENT OF THE NAVY
SPACE AND NAVAL WARFARE SYSTEMS COMMAND
4301 PACIFIC HIGHWAY
SAN DIEGO, CA 92110-3127

7500
Ser 8.6/043
5 Dec 08

From: Commander, Space and Naval Warfare Systems Command
To: Assistant Auditor General for Research, Development,
Acquisition, and Logistics Audits, Naval Audit Service

Subj: MANAGEMENT OF SPECIAL TOOLING AND SPECIAL TEST EQUIPMENT
AT SPACE AND NAVAL WARFARE SYSTEMS COMMAND (DRAFT AUDIT
REPORT N2008-NAA000-0076)

Ref: (a) Naval Audit Service memo 7510/N2008-NAA000-0076.000
of 7 Nov 2008

Encl: (1) Space and Naval Warfare Systems Command Consolidated
Response to Recommendations in Naval Audit Service
Draft Audit Report N2008-NAA000-0076

1. In response to reference (a), the Space and Naval Warfare Systems Command (SPAWAR) prepared the consolidated response at Enclosure (1). The response covers SPAWAR, SPAWAR Systems Centers Atlantic and Pacific, SPAWAR's affiliated Program Executive Offices (PEOs), and PEO Littoral and Mine Warfare (LMW). PEO LMW is affiliated with the Naval Sea Systems Command, but SPAWAR provides contract support services to PEO LMW.

2. The report does not contain material that is "For Official Use Only."

3. Questions concerning this correspondence may be directed to [REDACTED] SPAWAR Inspector General, at [REDACTED] or [REDACTED].

[REDACTED]
Deputy Commander

Copy to:
SSCs Atlantic and Pacific
PEOs C4I, PEO Space Systems and PEO LMW
JPBO JTRS

FOIA
(b)(6)

**Space and Naval Warfare Systems Command Consolidated Response to
Recommendations in Naval Audit Service
Draft Audit Report N2008-NAA000-0076**

We recommend that the Commander, Space and Naval Warfare Systems Command (SPAWAR):

Recommendation 1. Develop and implement an efficient and effective management process to provide visibility of Special Tooling and Special Test Equipment (ST/STE) inventory. The development and implementation of this management process should:

- Use the most reliable, timely, and readily available sources of data, and
- Include more frequent communication between SPAWAR, DCMA, and the contractor inventory personnel involved to determine the current status of ST/STE.

SPAWAR Consolidated Response. SPAWAR concurs that the SPAWAR ST/STE process can be improved, although it should be acknowledged that there are no known events or conditions that resulted in any poor program decisions related to ST/STE. Further, the Naval Audit Service confirmed that the Defense Contract Management Agency (DCMA) can identify ST/STE on SPAWAR contracts with few exceptions. Therefore, we recommend the following:

- Both the Naval Audit Service and DCMA formally request that the Office of Secretary of Defense (OSD) Item Unique Identification (IUID) Registry be expeditiously updated to include the capturing of types of property, so that the database can be sorted for ST/STE. The IUID Registry was created to have one Department of Defense (DoD) database for all DoD Property that allows access by all services. Therefore, it does not appear that having individual Navy Buying Commands create new and separate ST/STE databases supports the IUID Registry concept. SPAWAR has already informed the OSD IUID Program Office that classification of items in the IUID Registry is critical if we are to use the database to provide visibility over ST/STE and government furnished property (GFP) in general.
- If the IUID Registry cannot be expeditiously updated to include the capturing of types of property, then we

Enclosure (1)

recommend that the DoD Contract Property Management System (CPMS) database be revived until the IUID Registry can capture types of property. Currently, the FAR requires that contractors input government property into the IUID Registry instead of the CPMS. Therefore, applicable contracts would have to be modified to require input into both databases.

- SPAWAR will request, via its DCMA Customer Liaison Representative, that DCMA provide quarterly or semi-annual listings of SPAWAR government property, sorted by contract number and to include identification of property types.
- SPAWAR will update SPAWARINST 4860.14A, Control, Accountability and Reduction of Government Property, to provide guidance and direction on the handling and tracking of ST/STE.
- SPAWAR is scheduled for implementation of Navy Enterprise Resource Planning (NERP) in October 2009. NERP will have an inventory management module that will account for Sponsor Owned Material, of which ST/STE is a subset. This will assist in tracking, accounting and valuing property obtained through contract.
- Naval Audit Service request that the Deputy Assistant Secretary of the Navy (Acquisition & Logistics Management) develop or update the definition of ST/STE. The FAR definition has not been updated for years, and with the implementation of NERP, a common definition for what constitutes ST/STE will avoid classification issues in the future.

SPAWAR will complete the corrective action no later than 30 November 2009.

Recommendation 2. Establish a central office within SPAWAR with responsibility for management and oversight of ST/STE inventory.

SPAWAR Consolidated Response. SPAWAR concurs and will establish a central point of contact for ST/STE visibility and reporting. This function will be assigned to a competency within SPAWAR and each SPAWAR field office. This central point of contact will also provide updates to SPAWARINST 4860.14A, Control, Accountability and Reduction of Government Property. SPAWAR

will complete the corrective action no later than 30 November 2009.

Recommendation 3. Include assessable units for Government Furnished Equipment (GFE) in SPAWAR/PEO/SSC Managers' Internal Control (MIC) Programs.

SPAWAR Consolidated Response. SPAWAR concurs and will work with the SPAWAR Inspector General office to determine if development of an assessable unit, or an element within an existing assessable unit, can be incorporated into the SPAWAR Contracts or SPAWAR Readiness and Logistics competency portion of the SPAWAR Managers' Internal Control Program. SPAWAR will complete the corrective action no later than 30 November 2009.

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