

Naval Audit Service



Audit Report



Followup of Naval Audit Service Recommendations for Management of Special Tooling and Special Test Equipment Audits

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N2010-0039
23 June 2010

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DEPARTMENT OF THE NAVY
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7510
N2010-NAA000-0016
23 Jun 10

MEMORANDUM FOR NAVAL SEA SYSTEMS COMMAND,
SPACE AND NAVAL WARFARE SYSTEMS COMMAND,
NAVAL AIR SYSTEMS COMMAND

Subj: **FOLLOWUP OF NAVAL AUDIT SERVICE RECOMMENDATIONS FOR
MANAGEMENT OF SPECIAL TOOLING AND SPECIAL TEST
EQUIPMENT AUDITS (AUDIT REPORT N2010-0039)**

Ref: (a) NAVAUDSVC memo 7540/N2010-NAA000-0016 of 24 Feb 03
(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 findings and audit results. No recommendations
were made and no further action is required.

2. Please provide all correspondence to the Assistant Auditor General for Research,
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XXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight,
XXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format
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3. Any requests for this report under the Freedom of Information Act must be approved
by the Auditor General of the Navy as required by reference (b). This audit report is also
subject to followup in accordance with reference (b).

4. We appreciate the cooperation and courtesies extended to our auditors.



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XXXXXXXXXXXXXXXXXXXX
Assistant Auditor General
Research, Development, Acquisition, and Logistics
Audits

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**Subj: FOLLOWUP OF NAVAL AUDIT SERVICE RECOMMENDATIONS FOR
MANAGEMENT OF SPECIAL TOOLING AND SPECIAL TEST
EQUIPMENT AUDITS (AUDIT REPORT N2010-0039)**

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Executive Summary

Overview

The Naval Audit Service (NAVAUDSVC) issued audit reports on the Management of Special Tooling and Special Test Equipment (ST/STE) at the Naval Sea Systems Command (NAVSEA) (N2008-0019), the Space and Naval Warfare Systems Command (SPAWAR) (N2009-0016), and the Naval Air Systems Command (NAVAIR) (2009-0026), from January 2008 through April 2009. These audit reports concluded that inventory management processes and controls did not enable timely reporting or provide readily accessible, complete, or corporate visibility of their portion of Navy ST/STE, which was a systemic issue across the system commands (SYSCOMs).

The Fiscal Year (FY) 2006 Department of the Navy (DON) Risk and Opportunity Assessment Report showed that DON did not have an accurate inventory of all ST/STE. ST/STE is a subset of Government Furnished Equipment (GFE). Further, the FY 2008 Risk and Opportunity Assessment showed that DON did not have an accurate inventory of GFE. The Office of the Secretary of Defense (OSD) estimated 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 and Opportunity Assessment Report, OSD valued DON ST/STE at more than \$4 billion.

During the NAVAIR and SPAWAR ST/STE audits, we determined that the Item Unique Identification (IUID) could play a significant role in improving DON's accountability and visibility of its property, including ST/STE. The SYSCOMs were using the IUID Registry, which was implemented in response to the Chief Financial Officers (CFO) Act of 1990. In June 2008 DoD established the IUID Registry as a master repository of data, which is now being used to manage ST/STE. The IUID Registry stores information relating to acquisition, contract, property, and lifecycle management.

We performed this followup audit for the management of ST/STE at NAVSEA, SPAWAR, and NAVAIR to determine whether corrective actions were implemented to address the audit recommendations. We also assessed the impact of the IUID Registry upon the implementation of improvements and recommendations for the management of ST/STE. We conducted the audit between 3 December 2009 and 13 May 2010 at the activities listed in Exhibit B.

Reason for Audit

The audit objectives of this audit followup were to verify that: (1) corrective actions planned in response to prior management of ST/STE audit recommendations were implemented in a timely manner; and (2) the IUID Registry will provide DON managers total asset visibility and inventory accountability over ST/STE. Audit work consisted of reviewing eight open audit recommendations identified in the three ST/STE audit reports published in FYs 2008 and 2009.

Noteworthy Accomplishments

The designated points of contact for managing ST/STE at NAVSEA, SPAWAR, and NAVAIR are working together to ensure a uniform approach by all SYSCOMs regarding the implementation of the IUID Registry and ST/STE management policy. To ensure a uniform IUID solution, the DON Serialized Item Management (SIM)/IUID Lead conducts periodic meetings with the SYSCOMs' points of contact and other Navy officials to discuss issues relating to IUID and GFE.

As a result of the SPAWAR Management of ST/STE audit, SPAWAR has established a Government Furnished Property (GFP) Integrated Product Team (IPT) – GIPT, to lead the SPAWAR effort for improving the management process of Government property in general, and provide solutions to address the audit recommendations. The main goal of GIPT is to update and standardize SPAWAR GFP policy to include determining responsibilities and actions to be taken. Since inception, the GIPT has issued a data call to the contracting officer representatives and task order managers requesting reporting of GFP to comply with the GOM reporting requirements and to baseline the total dollar value of GFP, including ST/STE, at SPAWAR. SPAWAR is also working with their supported PEOs and SSCs to comply with SOM reporting requirements.

In response to SPAWAR's action item submittal to the OSD IUID Registry Working Group, the Office of the Deputy Assistant Secretary of the Navy (Acquisition and Logistics Management) (DASN (A&LM)) are collaboratively working on a Navy-sponsored action item that resulted in the DoD Unique Identification (UID) Program Office developing an Engineering Change Proposal to add categories of ST/STE to be selected during GFP entry in the IUID Registry and when querying for a report. This will add the ability to obtain a detailed listing by contract from the IUID Registry with the option of selecting a category.

Conclusions

While we found that NAVSEA, SPAWAR, and NAVAIR did not implement corrective actions in a timely manner, but the SYSCOMs are making progress toward completing the corrective actions. The SYSCOMs had closed none of the eight recommendations from the previous ST/STE audits, but during our audit, they closed five of the eight recommendations in accordance with Secretary of the Navy (SECNAV) Instruction 5200.34E. Specifically, NAVAIR and SPAWAR designated a central point of contact/office to provide oversight and management of ST/STE inventory; NAVAIR coordinated with the Defense Contract Management Agency (DCMA) to manage ST/STE; NAVAIR included an assessable unit for GFE in their management internal control program (MIC) and SPAWAR outlined ST/STE under the material management function of the overarching control of the Supply Chain Management assessable unit.

The other three recommendations remain open because guidance for management of ST/STE at NAVSEA, NAVAIR, and SPAWAR is in draft format. Based on the status of these open recommendations, NAVAUDSVC granted an extension for the SYSCOMs to complete the guidance for management of ST/STE.

This report does not contain recommendations. Therefore, a response to this report is not required.

We also determined that currently, the IUID Registry, as a stand-alone system, cannot be relied upon to resolve the audit issues discussed in the previous ST/STE reports. The DoD UID Program Office is developing an Engineering Change Proposal (ECP) to improve the ST/STE query capability within the IUID Registry by adding ST/STE as a category in the property type data field. The ECP will also add a function within the registry to identify the service ownership for each asset. In addition, the DON SIM/IUID Lead, along with points of contact at the SYSCOMs, stated that the IUID Registry will need to interface with the Enterprise Resource Planning (ERP) system to successfully manage property. The two systems will be interfaced through the Wide Area Workflow (WAWF), a DoD tool which serves as the communications medium between two systems that do not speak the same language. The full benefits of managing ST/STE with the IUID Registry are scheduled for 2015, with a possible recommended revised target date of 2020. Therefore, we concluded that the IUID Registry will potentially provide a greater impact on the visibility and accountability of ST/STE when the ECP is integrated and the registry is interfaced with the ERP system.

Communication with Management. Throughout this audit, we continually briefed the OSD, DASN (A&LM), and SYSCOM management officials of the noted conditions. Specifically, on 8 December 2009, we conducted a meeting with the NAVSEA designated point of contact to discuss the status and progress of the audit recommendations. On 14 January 2010, we briefed the NAVAIR Total Asset Visibility

Division Head to provide our assessment of their progress to implement the corrective actions and close out the recommendations. Additionally, on 28 January 2010, we briefed the SPAWAR Supply Chain Management Lead and other key personnel on our assessment of their progress to close the recommendations. On 1 March 2010, we met with the OSD Deputy of UID policy to discuss IUID implementation. On 15 March 2010, we briefed the DASN (A&LM) SIM/IUID Lead on the IUID information obtained from the OSD UID Office and the SYSCOMs.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act 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, 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.

Section A:

Audit Results

Finding 1: Corrective Actions for Management of Special Tooling and Special Test Equipment (ST/STE)

Synopsis

We found that although the Naval Sea Systems Command (NAVSEA), Naval Space and Warfare Systems Command (SPAWAR), and Naval Air Systems Command (NAVAIR) did not implement corrective actions in a timely manner on previous Naval Audit Service (NAVAUDSVC) audit reports' recommendations, the Systems Commands (SYSCOMs) are making progress toward completing the corrective actions. The SYSCOMs had closed none of the eight recommendations from the previous ST/STE audits. During this audit, the SYSCOMs closed five of the eight recommendations in accordance with Secretary of the Navy Instruction (SECNAVINST) 5200.34E. Specifically, NAVAIR and SPAWAR designated a central point of contact/office to provide oversight and management of ST/STE inventory; NAVAIR coordinated with the Defense Contract Management Agency (DCMA) to manage ST/STE; and NAVAIR included an assessable unit for Government Furnished Equipment (GFE) in their management internal control program (MIC) and SPAWAR outlined ST/STE under the material management function of the overarching control of the Supply Chain Management assessable unit.

The other three recommendations remain open because guidance for management of ST/STE at NAVSEA, NAVAIR, and SPAWAR is in draft format. Based on the status of these open recommendations, NAVAUDSVC granted an extension for the SYSCOMs to complete the guidance for management of ST/STE.

This finding does not contain recommendations. Therefore, a response to this finding is not required.

Discussion of Details

Background

We issued three audit reports on the Management of ST/STE:

- “Management of Special Tooling and Special Test Equipment at Naval Sea Systems Command” (N2008-0019), published 24 January 2008;

- “Management of Special Tooling and Special Test Equipment at Space and Naval Warfare Systems Command” (2009-0016), published 23 December 2008; and
- “Management of Special Tooling and Special Test Equipment at Naval Air Systems Command” (N2009-0026), published 24 April 2009.

In the NAVSEA and SPAWAR reports, we found that, with few exceptions, the SYSCOMs could account for their ST/STE. However, in the NAVAIR report, we found that NAVAIR did not account for its portion of Navy-owned ST/STE that was in the possession of contractors. In all three reports, we found that the inventory management processes and controls at the SYSCOMs did not enable timely reporting or provide readily accessible, complete, or corporate visibility of their portion of Navy ST/STE. Recommendations from those reports are discussed in the “Audit Results” section of this report.

The Fiscal Year (FY) 2006 Department of the Navy (DON) Risk and Opportunity Assessment Report showed that DON does not have an accurate inventory of all ST/STE. Further, the FY 2008 DON Risk and Opportunity Assessment Report included 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 DON ST/STE to be about \$4 billion for FY 2006.

Pertinent Guidance

Secretary of the Navy Instruction (SECNAVINST) 5200.34E, “Management of Audit Decision and Follow-up Functions,” 7 November 2005, requires the Commanding Officer or Director of an audited activity to take prompt, corrective action on agreed-upon audit recommendations. Corrective action will normally be completed within 1 year of the audit report’s publication.

SECNAVINST 5200.35E, “Department of the Navy Manager’s Internal Control Program,” 8 November 2006, states that the MICP include the development of effective internal controls, the evaluation of internal controls and correction of control deficiencies, the use of effective followup procedures, and documentation and reporting requirements.

Federal Acquisition Regulation (FAR) Subpart 2.1, “Definitions,” 17 February 2009, defines “Special Tooling” 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 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 Test Equipment” means 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.

FAR Subpart 45.101 “Definitions” defines “Government Furnished Property” as property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract.

Office of Management and Budget Circular A-50 “Audit Follow-up” states monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to: (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies’ operations; (2) determine proper actions in response to findings and recommendations from audits and reviews; and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management’s attention. The resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that: (1) corrects identified deficiencies; (2) produces improvements; or (3) demonstrates the findings and recommendations do not warrant management action.

Audit Results

The audit team verified the corrective actions planned or implemented for recommendations reported in the prior audits regarding the management of ST/STE were taken. The audit team reviewed progress on eight open recommendations identified in three audit reports. A synopsis of the prior status of the eight recommendations reviewed and their current status is found in Table 1. The commands were granted extensions beyond the original target completion date in circumstances when the commands developed an adequate plan of action and milestones for completion/implementation of corrective actions. The extension dates were coordinated with, and approved by, NAVAUDSVC.

Table 1. Status of Recommendations in Audit Reports

Audit Report Number	Recommendation	Current Status Open (O)/Closed (C)	Original Target Completion Date	Revised Target Completion Date	Closed Date
NAVSEA (N2008-0019)	1	O	12 Dec 2008	31 Aug 2010	
SPAWAR (N2009-0016)	1	O	30 Nov 2009	30 Jun 2010	
	2	C	30 Nov 2009	-	19 Apr 2010
	3	C	30 Nov 2009	-	19 Apr 2010
NAVAIR (N2009-0026)	1	O	31 Oct 2009	30 Jun 2010	
	2	C	31 Oct 2009	-	19 Apr 2010
	3	C	31 Oct 2009	-	19 Apr 2010
	4	C	31 Oct 2009	-	19 Apr 2010

Of the eight recommendations, three remain open and five were closed during this audit. The details for all recommendations reviewed during the audit are listed below.

N2008-0019, “Management of Special Tooling and Special Test Equipment at Naval Sea Systems Command.”

Recommendation 1. Improve the NAVSEA inventory management process for ST/STE to ensure more timely reporting and complete visibility of ST/STE assets. The improved management process should:

- Include specific NAVSEA guidance for management of ST/STE;
- Designate a central and accountable point of contact (individual or office) for ST/STE;
- Use the most reliable, timely, and readily available sources of data; and
- Include more frequent communication between parties involved to determine the current status of ST/STE, and ensure program managers and contractors are not procuring more ST/STE than is needed or procuring ST/STE that may already exist in inventory.

NAVSEA did not implement a management process to provide visibility of ST/STE by the extended target completion date of 30 November 2009. However, NAVSEA did develop a draft policy, “Acquisition and Management of Industrial Resources Standard Operating Procedures,” to provide guidance for managing ST/STE. NAVSEA included verbiage in the policy relating to Sponsor Owned Material (SOM) and Government Owned Material (GOM) management and reporting, which includes ST/STE. NAVSEA also included a statement in the policy regarding communication

with DCMA to manage ST/STE. In addition, NAVSEA designated a point of contact within the Logistics Division (SEA04L2) as the centralized point of contact in a designation letter dated 5 April 2010. The recommendation remains open, with an extension granted until 31 August 2010.

N2009-0016 “Management of Special Tooling and Special Test Equipment at Space and Naval Warfare Systems Command.”

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:

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

SPAWAR did not implement a management process to provide visibility of ST/STE by the target completion date of 30 November 2009. However, SPAWAR did develop a draft Instruction 4440.12, “Sponsor-Owned Material, Government-Owned Material and Plant and Project Stock Management,” to provide guidance for managing ST/STE. SPAWAR plans to include a statement in the instruction regarding communication with DCMA and contractor inventory personnel. SPAWAR has also issued a data call to key personnel to develop a baseline for GFE, including ST/STE. We consider these initiatives as progress towards completing the corrective actions. The recommendation remains open, with an extension granted until 30 June 2010.

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

SPAWAR designated the Supply Chain Management Division (4.3.2) as the centralized point of contact in a designation letter dated 1 February 2010. Action taken satisfies the intent of the recommendation, which was closed on 19 April 2010.

Recommendation 3. Include assessable units for GFE in SPAWAR/PEO¹/SSC² MIC Programs.

SPAWAR has outlined ST/STE under the material management function of the overarching control of the Supply Chain Management assessable unit. SPAWAR is currently implementing a new procedure called, “Policy, Procedures, Processes, Practices, and Instructions (P4I),” to realign personnel to their appropriate

¹ Program Executive Office.
² SPAWAR Systems Center.

competency. The MIC Program Coordinator is analyzing position and office responsibilities by reviewing the P4I elements that play a role in the given position/office. As a result of the analysis, personnel are being realigned to a competency where their knowledge, skills, and abilities are more suitable for the organization's overall mission. This action satisfies the intent of the recommendation, which was closed on 19 April 2010.

N2009-0026, "Management of Special Tooling and Special Test Equipment at Naval Air Systems Command"

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

- a) Reliable, timely, and readily available data for all Program Offices;
- b) Frequent communication between NAVAIR and DCMA to determine the current status of ST/STE; and
- c) Uniform processes for managing ST/STE.

NAVAIR did not implement a management process to provide accountability and visibility of ST/STE by the target completion date of 31 October 2009. However, NAVAIR has developed a draft version of Instruction 4451.2A, "Naval Air Systems Command Sponsor Owned Material Management," to provide guidance for managing ST/STE. In addition, NAVAIR established coordination with DCMA to execute courses of action that provide increased visibility and accountability of GOM, including ST/STE. The draft instruction and coordination with DCMA represent progress towards completing the corrective action. The recommendation remains open, with an extension granted until 30 June 2010.

Recommendation 2. Establish a central office/point-of-contact at NAVAIR Headquarters to which program managers will provide visibility and accountability of ST/STE at the contractor site and update the current Material Management policies and guidance to provide more detail and accountability in the management of ST/STE.

NAVAIR designated Total Asset Visibility (Air 6.8.3) as the central office to provide direct oversight for the visibility, internal control, and material management of NAVAIR Sponsor Owned Material (SOM) in the organization breakdown structure. AIR 6.8.3 has also been tasked with the responsibility of providing SOM policy and guidance for the command. The designation of a central office and development of an oversight plan satisfies the intent of the recommendation, which was closed on 19 April 2010.

Recommendation 3. NAVAIR officials work with DCMA officials to ensure that:

- DCMA PA³ provides sufficient oversight for ST/STE in the possession of contractors;
- Contracts are evaluated to determine which contracts should be modified with FAR clause 52.245-1, dated June 2007, and modify them, as appropriate, so that NAVAIR may meet DoDINST⁴ 5000.64, section 6.11.1.3. requirements;
- Contractors have supporting documentation for Navy-owned ST/STE items in their possession; and
- Contractors have a sufficient property control system to satisfy the requirements of FAR 52.245-1.

NAVAIR provided an e-mail showing coordination with DCMA to manage ST/STE. The coordination included an agreement that AIR 6.8.3 will submit a listing to DCMA of all contract numbers and contractor locations that hold NAVAIR GOM, which includes ST/STE. DCMA will send copies of all Fiscal Year 2009, and future audit results, related to contractor-held NAVAIR GOM in the possession of contractors to AIR 6.8.3. When deficiencies with the contractor's property management system are identified, DCMA agreed to monitor the contractor's corrective actions, and coordinate with AIR 6.8.3 to the extent necessary. Upon receipt of DCMA Property Management Systems Analysis (PMSA), AIR 6.8.3 will serve as the central repository of the reports, coordinate results with accountable NAVAIR program offices, and disseminate NAVAIR policy and best practices to improve oversight of GOM. These actions satisfy the intent of the recommendation, which was closed on 19 April 2010.

Recommendation 4. Include ST/STE in the possession of contractors as an assessable unit in the management control plan.

NAVAIR has added ST/STE in the possession of contractors as an assessable unit for the AIR 6.0 competency. This action satisfies the intent of the recommendation, which was closed on 19 April 2010.

³ Property Administrator

⁴ Department of Defense Instruction.

Finding 2: IUID Registry

Synopsis

We determined that currently, the IUID registry, as a stand-alone system, cannot be relied upon to resolve the audit issues discussed in the previous ST/STE reports. As a direct result of our previous audits on ST/STE, SPAWAR officials and the Office of the Deputy Assistant Secretary of the Navy (Acquisition and Logistics Management) are working collaboratively on a Navy-sponsored Engineering Change Proposal (ECP). The Department of Defense (DoD) Unique Identification (UID) Program Office is developing that ECP to improve the ST/STE query capability within the IUID Registry by adding ST/STE as a category in the property type data field. The ECP will also add a function within the registry to identify the service ownership for each asset. In addition, the DON SIM/IUID Lead, along with points of contact at the SYSCOMs, stated that the IUID Registry will need to interface with the Enterprise Resource Planning (ERP) system to successfully manage property. The two systems will be interfaced through the Wide Area Workflow (WAWF), a DoD tool which serves as the communications medium between two systems that do not speak the same language. The full benefits of managing ST/STE with the IUID Registry will not be realized until 2015, with a recommended revised target date of 2020. Therefore, we concluded that the IUID Registry will potentially provide a greater impact on the visibility and accountability of ST/STE when the engineering change proposal is integrated and the registry is interfaced with the ERP system.

This finding does not contain recommendations. Therefore, a response to this finding is not required.

Discussion of Details

Background

Management of ST/STE Audits

The IUID Registry was implemented to help DoD comply with the Chief Financial Officers (CFO) Act of 1990 requirement to achieve clean financial statements. The IUID Registry was only at the beginning stages of accomplishing this purpose when we learned it could potentially be used to manage DON property, including ST/STE. During the NAVAIR and SPAWAR ST/STE audits, we determined that the IUID Registry could play a significant role in improving DON's accountability and visibility of its property, including ST/STE.

Unique Identification

Unique Identification (UID) technology 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 (UII), which is a set of globally unique data elements. All DoD assets must be UID compliant unless the asset meets exemption criteria. By implementing UID technology, the IUID Registry is a system used to track items through their life cycle.

Contract Property Management System (CPMS)

Prior to the standardization of UID technology, Navy ST/STE was managed using the CPMS. However, we found that during our previous SPAWAR ST/STE audit, neither CPMS nor the IUID Registry could be used for the verification or effective management of ST/STE. According to a policy memorandum issued by the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, once items have been entered into the IUID Registry, contractors are no longer required to submit DD Form 1662 to annually update CPMS. However, during the transition from using CPMS to the IUID Registry, ST/STE could not be accounted for. In addition, the IUID Registry does not classify property as ST, STE, Government Furnished Material (GFM), Other Plant Equipment (OPE), or Industrial Plant Equipment. Instead, property is commingled into two property categories; Material (M), or Equipment (E). Therefore, during our prior audit work, we could not determine the actual items and amounts for ST/STE.

Enterprise Resource Planning (ERP)

ERP is an integrated management system that standardizes Navy business operations and provides financial transparency and asset visibility. ERP's current release, Release 1.0, is the backbone of the system and, even though it includes some property management functionalities, it lacks other essential capabilities. One of the missing capabilities is dynamic bin management, which provides the ability to accurately track different items of the same type that are distributed throughout different bins in a warehouse or different rooms in a production facility. Along with other property management capabilities, dynamic bin management is included in ERP Release 1.1, which will integrate the wholesale and retail supply operations. ERP Release 1.1 is already being implemented at some Navy field activities, but, according to the designated ST/STE points of contact at the SYSCOMs, full implementation throughout the Navy will not be completed until 2013 or 2014.

Pertinent Guidance

DoDINST 8320.04, “Item Unique Identification (IUID) Standards for Tangible Personal Property,” 16 June 2008, establishes the IUID Registry as the master data source for Government Furnished Property (GFP). It is also established as the authoritative source for establishing the full cost of end-item equipment.

Audit Results

Item Unique Identification

The second objective for this audit was to assess the impact of the IUID Registry on the visibility and accountability of ST/STE. As a direct result of the ST/STE audit report, SPAWAR is working collaboratively with DASN (A&LM) on an ECP to the IUID Registry which will be Navy-sponsored. The ECP would add the capabilities to assign a specific property category (i.e., ST, STE, OPE, GFM) to any item in the registry, as well as identify the service ownership for ST/STE items.

The planned upgrades and improvements implemented by the ECP should be completed by the spring of FY 2011. According to policy established by the UID office, the IUID Registry is scheduled to be fully populated by FY 2015. However, the Joint Logistics Board Task Force reported that compliance with UID asset marking requirements be deferred until 2020. Based on these estimated completion dates for full population of the IUID Registry, the registry cannot currently be used as a reliable management tool for the accountability and visibility of ST/STE. With the IUID Registry not being a viable solution for the efficient and effective management of GFP, the DON SIM/IUID Lead, along with points of contact at the SYSCOMs, stated that the IUID registry will need to interface with the ERP system to successfully manage property. The interface will take place through the WAWF, a DoD tool which serves as the communications medium between two systems that do not speak the same language.

Conclusion

Based on our audit results, the SYSCOM points of contact and the DON SIM/IUID Lead are working toward constant improvements and upgrades to the IUID Registry, making it a more effective ST/STE management tool. We found that the IUID Registry, as a stand-alone system, cannot be relied upon to resolve the accountability and/or visibility issues discussed in NAVAUDSVC reports regarding the management of ST/STE at NAVAIR, NAVSEA, and SPAWAR. However, based on input and results from this audit, we determined that constant upgrades and improvements to the IUID Registry have been planned by DoD and, when used in conjunction with ERP, will present a better management system for ST/STE than using the IUID Registry alone. Therefore, the

impact of the IUID Registry on the visibility and accountability of ST/STE will potentially be improved when the ECP is integrated and the registry is interfaced with ERP.

Exhibit A:**Scope and Methodology****Scope**

The Naval Audit Service (NAVAUDSVC) conducted this audit, “Followup of Naval Audit Service Recommendations for Management of Special Tooling and Special Test Equipment” for the Department of the Navy (DON). We conducted the audit between 3 December 2009 and 13 May 2010. We visited and/or contacted officials at each location identified in Exhibit B.

The objectives of this audit are to verify that corrective actions planned in response to Management of Special Tooling and Special Test Equipment (ST/STE) audit recommendations are implemented in a timely manner, and verify that the Item Unique Identification (IUID) Registry will provide DON managers total asset visibility and inventory accountability over ST/STE.

This audit was based upon three audits reports conducted by NAVAUDSVC and published between January 2008 and April 2009 (see Table 2 below). The reports had a total of eight open recommendations impacting Naval Sea Systems Command (NAVSEA), Naval Air Systems Command (NAVAIR), and Space and Naval Warfare Systems Command (SPAWAR).

Table 2. NAVAUDSVC ST/STE Final Reports

Audit Report Number	Audit Report Title	Action Command	Number of Recommendations	
			Open	Closed
N2008-0019	Management of ST/STE at Naval Sea Systems Command	NAVSEA	1	-
N2009-0016	Management of ST/STE at Space and Naval Warfare Systems Command	SPAWAR	1	2
N2009-0026	Management of ST/STE at Naval Air Systems Command.	NAVAIR	1	3

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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted meetings with the central points of contact, audit liaisons, management internal control coordinators, IUID leads, and other key personnel responsible for implementing corrective actions to address audit recommendations.

NAVSEA

We requested the instruction on ST/STE management and oversight and visibility responsibilities within NAVSEA. We made several attempts to meet with the NAVSEA point of contact to obtain the instruction. We were informed the instruction was not yet available, so we requested and received the revised target date for the draft and final versions of the instruction.

We were informed that the central and accountable point of contact for NAVSEA had been designated; therefore, we requested documentation to show designation. We received and reviewed the draft designation letter and requested the final version. We also communicated continuously with the audit liaison to obtain a copy of the designation letter when it wasn't received. We requested and received the revised target date for the final version.

We requested the process to provide a listing of ST/STE inventory at NAVSEA.

We requested and received documentation to show communication between parties involved in determining the current status of ST/STE.

SPAWAR

We requested guidance to show implementation of an efficient and effective management process to provide visibility of ST/STE inventory. We received the draft instruction and compared the instruction to the NAVAIR instruction to ensure uniformity. We requested and received the revised target date for the final version of the SPAWAR instruction.

We identified the central office for managing ST/STE for SPAWAR and requested documentation to show designation. We received the final designation letter and reviewed to verify the office designated.

We met with the management internal control program coordinator and requested documentation to show the inclusion of Government Furnished Equipment (GFE) as an assessable unit in the management internal control plan. We were informed that the management internal control program was being revised; therefore, we requested and received the revised target date to satisfy the recommendation.

NAVAIR

We requested guidance to show implementation of an efficient and effective management process that provided accountability and visibility of ST/STE inventory. We received a draft instruction and reviewed it to ensure that it included the process for managing ST/STE and communication with the Defense Contract Management Agency (DCMA). We also reviewed the instruction and compared it to the SPAWAR instruction to ensure uniformity. We requested and received the revised target date for the final version of the NAVAIR instruction.

We identified the central point of contact responsible for oversight of management and accountability of ST/STE for NAVAIR. We requested documentation designating a central point of contact/office at NAVAIR headquarters to which program managers would provide visibility and accountability of ST/STE. We received the official breakdown structure and reviewed it to identify the office designated.

We requested documentation to show coordination between DCMA and NAVAIR to manage ST/STE. We attended a meeting with DCMA and NAVAIR representatives and witnessed coordination. We also obtained and reviewed e-mail communication to verify concurrence by both parties.

We met with the management internal control program coordinator and requested documentation to show the inclusion of GFE as an assessable unit in the management control plan. We received the inventory listing of assessable units and reviewed to verify that GFE had been included.

IUID

We performed an assessment of the impact of the IUID Registry on the visibility and accountability of ST/STE. Our assessment included interviewing command personnel, DON senior officials and Office of the Secretary of Defense (OSD) IUID personnel, as well as obtaining relevant documentation. This enabled us to acquire knowledge on IUID policy changes, development and growth plans, and implementation timelines.

Specifically, we met with the DON IUID Lead from the Office of the Deputy Assistant Secretary of the Navy (Acquisition and Logistics Management) (DASN (A&LM)) to obtain DON's perspective on the current IUID policy, implementation plans, and the proposed Engineering Change Proposal.

We also met with IUID experts at NAVAIR, NAVSEA, and SPAWAR to understand each command's experiences and concerns regarding the implementation of the IUID Registry and the impact on the management of ST/STE. We obtained information about recent policy developments and planned changes to the registry. We also obtained knowledge relating to the Enterprise Resource Planning and its interface with the IUID Registry. Additionally, we met with the OSD IUID program office personnel to confirm the information we obtained from the Systems Commands.

We participated in a teleconference between DASN (A&LM) personnel and Systems Commands' points of contact. This meeting was held as part of a recent initiative by the DON IUID Lead to ensure a Navy-wide uniform approach for any IUID implementation issues and other property-related matters.

Exhibit B:

Activities Visited and/or Contacted

Deputy Assistant Secretary of the Navy
(Acquisition and Logistics Management)
Office

Arlington, VA

Office of the Secretary of Defense, Unique
Identification Program Office

Arlington, VA

Naval Air Systems Command

Patuxent River, MD

Naval Sea Systems Command

Washington Navy Yard, DC

Space and Naval Warfare Systems
Command

San Diego, CA

Exhibit C:

Acronyms Listing

CPMS	Contract Property Management System
DASN (A&LM)	Deputy Assistant Secretary of the Navy (Acquisition and Logistics Management)
DCMA	Defense Contract Management Agency
DoD	Department of Defense
DON	Department of the Navy
ECP	Engineering Change Proposal
ERP	Enterprise Resource Planning
FAR	Federal Acquisition Regulation
FMFIA	Federal Managers' Financial Integrity Act
GFE	Government Furnished Equipment
GFP	Government Furnished Property
GOM	Government Owned Material
IPT	Integrated Product Team
IUID	Item Unique Identification
MIC	Managers' Internal Control
NAVAIR	Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
OPE	Other Plant Equipment
OSD	Office of Secretary of Defense
PEO	Program Executive Office
SECNAV	Secretary of the Navy
SIM	Serialized Item Management
SOM	Sponsored Owned Material
SPAWAR	Space and Naval Warfare Command
SSC	Strategic Systems Center
ST	Special Tooling
STE	Special Test Equipment
SYSCOMs	System Commands
UID	Unique Identification