

Naval Audit Service



Audit Report



Requirements for Programs Managed by Program Executive Office Integrated Warfare Systems

This report contains information exempt from release under the Freedom of Information Act. Exemption (b)(6) applies.

~~Do not release outside the Department of the Navy~~
~~or post on non-NAVAUDSVC Web site, or in Navy Taskers,~~
~~without prior approval of the Auditor General of the Navy~~

N2014-0035
6 August 2014

Obtaining Additional Copies

To obtain additional copies of this report, please use the following contact information:

Phone: (202) 433-5757
Fax: (202) 433-5921
E-mail: NAVAUDSVC.FOIA@navy.mil
Mail: Naval Audit Service
Attn: FOIA
1006 Beatty Place SE
Washington Navy Yard DC 20374-5005

Providing Suggestions for Future Audits

To suggest ideas for or to request future audits, please use the following contact information:

Phone: (202) 433-5840 (DSN 288)
Fax: (202) 433-5921
E-mail: NAVAUDSVC.AuditPlan@navy.mil
Mail: Naval Audit Service
Attn: Audit Requests
1006 Beatty Place SE
Washington Navy Yard DC 20374-5005



DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
1006 BEATTY PLACE SE
WASHINGTON NAVY YARD, DC 20374-5005

7510
2013-081
6 Aug 2014

**MEMORANDUM FOR PROGRAM EXECUTIVE OFFICE INTEGRATED
WARFARE SYSTEMS**

**Subj: REQUIREMENTS FOR PROGRAMS MANAGED BY PROGRAM
EXECUTIVE OFFICE INTEGRATED WARFARE SYSTEMS
(AUDIT REPORT N2014-0035)**

Ref: (a) NAVAUDSVC Announcement Letter 2013-081, dated 03 July 2013
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

Encl: 1. Background
2. Scope and Methodology
3. Pertinent Guidance

1. **Introduction.** We have completed the subject audit announced in reference (a) and are providing this report in accordance with reference (b). Overall, Program Executive Office Integrated Warfare Systems (PEO IWS) ensured that programs had approved requirements documentation before proceeding through the system development process. Specifically, approved requirements documentation was available for each of the 20 programs that we reviewed. Therefore, we are making no recommendations in this report and no response is necessary. However, we noted an opportunity for improvement when providing information about PEO IWS programs to outside entities (see paragraph 6).

2. **Reason for Audit.** This audit was initiated in response to submissions to the Fiscal Year (FY) 2013 Risk and Opportunity Assessment. The objective of the audit was to verify that programs managed by PEO IWS had approved requirements documentation before proceeding through the system development process.

3. **Background.**

a. PEO IWS manages surface ship and submarine combat technologies and systems and coordinates Navy Open Architecture across ship platforms. As of

Subj: **REQUIREMENTS FOR PROGRAMS MANAGED BY PROGRAM
EXECUTIVE OFFICE INTEGRATED WARFARE SYSTEMS
(AUDIT REPORT N2014-0035)**

April 2013, PEO IWS was managing 136 Navy programs/projects¹ with an estimated budget of \$22.5 billion for Fiscal Years (FYs) 2014-2018.

b. We evaluated whether PEO IWS programs had approved requirements documentation prior to proceeding through the system development process. Specifically, we selected 20 programs² budgeted for approximately \$5.1 billion for FYs 2014 through 2018. We selected these programs with the goal of providing broad coverage of the various categories of programs managed by PEO IWS. We conducted this audit from 26 March 2013 through 6 August 2014.

c. Throughout the audit we kept the Acquisition Officer for PEO IWS informed of potential issues with our sampled programs. Specifically, we met with the Acquisition Officer and the Audit Liaison for PEO IWS on 29 August 2013 to discuss the status of the audit. We also met with the Director, Integrated Combat Systems;³ the PEO IWS Chief of Staff; and the Acquisition Officer for PEO IWS on 18 November 2013 to discuss the status of the audit. We met again with the Director, Integrated Combat Systems and the Acquisition Officer for PEO IWS on 15 January and 25 March 2014 to discuss our preliminary audit results.

d. For additional background, see Enclosure 1.

4. 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, 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.

5. Summary of Audit Results. We found that properly approved requirements documentation was provided for each of the 20 reviewed programs, budgeted for an estimated \$5.1 billion for FYs 2014-2018, as required by Secretary of the Navy (SECNAV) Instruction 5000.2 series. As a result of proper alignment of program requirements and system development, PEO IWS program managers had information needed to plan, execute, and manage programs. In contrast, system development performed without approved requirements creates the potential for unrealized capability growth, which could lead to additional costs and program schedule delays.

¹ We excluded Foreign Military Sales programs from the universe because they are not Navy requirements.

² Selected programs included programs reported by PEO IWS as ACAT programs, non-ACAT programs, Pre-Major Defense Acquisition Programs, New Starts, and Abbreviated Acquisition Programs.

³The Director, Integrated Combat Systems was also Acting Director, Above Water Systems, at the time of the meeting.

Subj: **REQUIREMENTS FOR PROGRAMS MANAGED BY PROGRAM EXECUTIVE OFFICE INTEGRATED WARFARE SYSTEMS (AUDIT REPORT N2014-0035)**

6. **Other Observations.** We found that PEO IWS mistakenly reported eight acquisition programs, budgeted for an estimated \$180.3 million for FYs 2014-2018, as non-acquisition programs in the *NAVSEA & Affiliated PEO Acquisition Index*,⁴ dated 16 January 2013. PEO IWS representatives acknowledged this administrative error and plan to develop Standard Operating Procedures to ensure that all programs are properly reported to NAVSEA Acquisition Policy Office (SEA-0213). We do not consider this error to be material.

7. **Other Information.**

a. Correspondence should be addressed to the Assistant Auditor General for Research, Development, Acquisition, and Logistics Audits, XXXXXXXXXXXX, by e-mail at XXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

FOIA (b)(6)

b. 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).

c. In order to protect privacy and other sensitive information included in this report, we request that you do not release this report outside the Department of the Navy, post on non-NAVAUDSVC Web sites, or post in Navy Taskers without the prior approval of the Auditor General of the Navy.

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



FOIA (b)(6)

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

Copy to: (next page)

⁴ This listing of NAVSEA programs is prepared twice a year. It is sent to NAVSEA Program Managers and to the Assistant Secretary of the Navy (Research, Development & Acquisition) (ASN (RDA)).

**Subj: REQUIREMENTS FOR PROGRAMS MANAGED BY PROGRAM
EXECUTIVE OFFICE INTEGRATED WARFARE SYSTEMS
(AUDIT REPORT N2014-0035)**

Copy to:

UNSECNAV

DCMO

OGC

ASSTSECNAV FMC

ASSTSECNAV FMC (FMO)

ASSTSECNAV EIE

ASSTSECNAV MRA

ASSTSECNAV RDA

CNO (VCNO, DNS-33, N40, N41)

CMC (DMCS, ACMC)

DON CIO

NAVINGEN (NAVIG-14)

NAVSEA

AFAA/DO

Background

The Naval Sea Systems Command (NAVSEA) is comprised of command staff, headquarters directorates, five affiliated Program Executive Offices (PEOs), and numerous field activities. The command and affiliates engineer, build, buy, and maintain ships, submarines, and combat systems that meet the Fleet's current and future operational requirements.

In October 2002, the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN (RD&A)) issued a Naval Message that created "a new PEO for Integrated Warfare Systems in order to provide the required discipline and coordination of the architecture and overarching interface principles to which our systems will be developed." This Naval Message established PEO IWS' responsibility for all surface ships and submarine combat systems, missiles (except Trident and Tomahawk), radars, launchers (except Trident), Electronic Warfare, and gun systems.

PEO IWS used the following definitions when categorizing their programs:

- *Acquisition Category (ACAT) I-IV Programs* are acquisition programs that are assigned to categories based on an assessment of cost, complexity, and risk as defined in Secretary of the Navy Instruction 5000.2E.
- *Pre-Major Defense Acquisition Programs* are efforts that may eventually become Major Defense Acquisition Programs.
- *Non-ACATs* are legacy programs that were not designated as ACAT programs; programs that are components of other programs; and Non-Acquisition efforts/activities/projects which do not directly result in the acquisition of items for operational deployment. Typically, they are enterprise efforts that support acquisition, such as Enterprise Test and Evaluation.⁵
- *Abbreviated Acquisition Programs* are small non-complex DON acquisitions and modifications that do not require Operational Test and Evaluation and are below dollar thresholds and other criteria for ACAT I-IV programs.
- *New Starts* are planned efforts that may transition to an active acquisition program in the future.
- *Inactive ACATs* are programs that have delivered more than 90 percent of their total quantity or expended more than 90 percent of total program costs.

⁵ This definition was provided by PEO IWS and includes the SECNAV Instruction 5000.2E definition of a non-acquisition program.

Scope and Methodology

We conducted the audit from 26 March 2013 through 6 August 2014. Our audit work focused on programs managed by Program Executive Office Integrated Warfare Systems (PEO IWS). This audit concentrated on review, management, and oversight of requirements documentation.

We reviewed Office of Management and Budget (OMB), Department of Defense (DoD), and Department of the Navy (DON) policies and procedures applicable to acquisition programs and non-acquisition programs. We interviewed Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A)) personnel; the PEO IWS Acquisition Officer; Chief of Naval Operations Resource Sponsors; and PEO IWS Program Managers.

PEO IWS provided a list of their programs/projects as of 22 April 2013. This list consisted of 149 programs/projects. We excluded 13 Foreign Military Sales programs because they were not Navy requirements. We used the remaining 136 PEO IWS acquisition programs/projects as our universe. These 136 programs/projects were budgeted for an estimated \$22.5 billion based on PEO IWS budget data for Fiscal Years (FYs) 2014-2018.

From this universe, we selected a sample of 20 programs to provide broad coverage of the various categories listed (e.g. Acquisition Category (ACAT) programs, pre-Major Defense Acquisition Programs (pre-MDAPs), non-ACAT programs, Abbreviated Acquisition Programs (AAPs), New Start programs, and Inactive ACAT programs⁶). These programs were budgeted for an estimated \$5.1 billion for FYs 2014-2018. PEO IWS categorized the 20 programs we selected as follows:

- ACAT – 5
- Pre-MDAP – 1
- Non-ACATs – 8
- AAP – 1
- New Start – 1
- Inactive ACAT – 4

⁶ According to the PEO IWS Acquisition Officer, an Inactive ACAT program is one that has expended more than 90 percent of its RDT&E and Procurement Budget as defined in the Acquisition Program Baseline (APB) or one that has delivered more than 90 percent of its APB total quantity of end items.

For the 20 programs in our sample we obtained, reviewed, and evaluated the following documents, as appropriate, to verify that the program had approved requirements documentation before proceeding through the system development process:

- Mission Needs Statement
- Initial Capabilities Document
- Tentative Operational Requirements document
- Operational Requirement Document
- Capability Development Document
- Capability Production Document
- Rapid Deployment Capabilities document
- Specific Operating Requirements document

In addition, we reviewed the Acquisition Decision Memorandums for the ACAT programs to ensure that the Milestone Decision Authority had approved the program to proceed to the next phase of the system development process. Further, we compared selected information shown on the list to information listed in the *NAVSEA Acquisition Index* dated 16 January 2013.⁷

We coordinated efforts with the Government Accountability Office, the Department of Defense Inspector General, the Naval Inspector General, and the Naval Criminal Investigative Service to determine if these agencies had any current or planned projects which may have had an impact on this performance audit. Within the past 5 years, there were no audit reports issued specifically covering requirements documentation for acquisition programs or non-acquisition programs, so no followup was necessary.

We reviewed internal controls over requirements documentation. Specifically, we reviewed the procedures followed by PEO IWS to approve requirements documentation before programs proceeded through the system development process. In addition, we obtained Naval Sea Systems Command's Management Internal Control Program Statement of Assurance for FYs 2011-2013 and reviewed the documentation to determine whether PEO IWS identified any reportable conditions relating to requirements documentation or any material weaknesses relating to our audit objective.

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

⁷ This listing of Naval Sea Systems Command programs is prepared twice a year. It is sent to NAVSEA Program Managers and to the ASN (RD&A).

Pertinent Guidance

Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, dated December 21, 2004, provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control.

Department of Defense Instruction (DODI) 5000.02, Operation of the Defense Acquisition System, dated December 8, 2008, establishes a simplified and flexible management framework for translating capability needs, and translating technology opportunities based on approved capability needs into stable, affordable, and well-managed acquisition programs that include weapon systems, services, and automated information systems. DODI 5000.02 provides the description and decision authority for Acquisition Categories (ACATs) I-III, as well as the types of requirements documentation mandated for each phase of the Defense Acquisition System. It also requires decision authorities to document program decisions in an Acquisition Decision Memorandum.

Secretary of the Navy (SECNAV) Instruction 5000.2 series, 1996 to present, provides mandatory procedures for the Department of the Navy's implementation of higher level policy for major and non-major defense acquisition programs and information technology acquisition programs. SECNAV Instruction 5000.2 series adds ACAT IV, Abbreviated Acquisition Programs, and non-acquisition programs to the program categories defined in the DODI 5000.02.

Secretary of the Navy Manual 5000.2, Department of the Navy Acquisition and Capabilities Guidebook, dated May 2012, is intended to be used as a companion document to SECNAV Instruction 5000.2E. It contains citations from SECNAV Instruction 5000.2E and other mandatory references for process clarification. SECNAV M-5000.2 further describes the management of the non-acquisition programs discussed in the SECNAV Instruction 5000.2 series.

~~FOR OFFICIAL USE ONLY~~

Use this page as
BACK COVER
for printed copies
of this report

~~FOR OFFICIAL USE ONLY~~