Audit Report

YEAR 2000 CONVERSION FOR DEFENSE CRITICAL SUPPLIERS

Report No. 99-058 December 18, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DCMC	Defense Contract Management Command
DLA	Defense Logistics Agency
TACOM	Tank-Automotive and Armaments Command

INSPECTOR GENERAL
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December 18, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE)

SUBJECT: Audit Report on Year 2000 Conversion for Defense Critical Suppliers (Report No. 99-058)

We are providing this report for your information and use. This is one in a series of reports being issued by the Inspector General, DoD, in accordance with an informal partnership with the Chief Information Officer, DoD, to monitor efforts to address the year 2000 computing challenge. Because this report contains no findings or recommendations, no written comments were required, and none were received.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Nicholas E. Como at (703) 604-9215 (DSN 664-9215) <ncomo@dodig.osd.mil> or Mr. Wayne K. Million at (703) 604-9312 (DSN 664-9312) <wmillion@dodig.osd.mil>. See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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Part I - Audit Results

Audit Background

DoD Supplier Population. During FY 1997, DoD awarded major prime contracts* totaling $116.7 billion, to over 43,000 suppliers for weapon systems, supplies, and services. The supplier base is considerably larger when all tiers of subcontractors on major contracts and sources for small purchases are considered.

Federal Acquisition Regulation Requirement. As of August 1997, the Federal Acquisition Regulation required that Government contracts have a reference to Federal Acquisition Regulation Part 39 and only allow purchases of year 2000 compliant items. Part 39 mandates that modification of existing contracts to require year 2000 compliance for information technology and date chips be required before that contract can be used to procure information technology, unless the required waivers have been obtained from the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). The provisions apply only to the year 2000 compliance of the items being procured, not to the business systems of the suppliers or their interfaces with Government systems.

Audit Objectives

The overall audit objective was to evaluate the status of DoD progress in resolving the year 2000 computing issue for critical suppliers. Our audit focused on the following year 2000 issues: leadership support and awareness, management and resolution strategy, system assessments, prioritization, system interfaces, testing, risk analysis and contingency planning, and support received from responsible personnel within DoD, the Services, and contractual executive agents. See Appendix A for a discussion of the audit scope and methodology and for a summary of prior coverage.

*Contracts totaling $25,000 or more are considered major prime contracts.

DoD Management of Critical Suppliers' Year 2000 Compliance Program

Until late FY 1998, outreach efforts to suppliers of national Defense goods and services were left to individual DoD Components to organize, execute, and monitor. As a result, the emphasis put on outreach to suppliers varied greatly among DoD acquisition and logistics organizations. Because of the belated outreach focus to ensure suppliers' year 2000 conversion, DoD faces an increased risk of production and delivery disruptions. If commercial suppliers of critical supplies experience disruptions as a result of computer failures, the logistics pipeline may be compromised. The Deputy Under Secretary of Defense (Logistics) has now taken a positive approach to developing a more systematic assessment of the critical suppliers' year 2000 compliance by establishing a Joint Supplier Capability Working Group (the Group) as a forum on this issue. As of October 1998, the Group had established the methodology for identifying critical items and their suppliers, and a reasonable action plan for assessing critical suppliers' year 2000 compliance. A sustained effort by the Group is needed to compensate for the belated focus on this aspect of the year 2000 conversion challenge and to ensure a proper evaluation of the critical suppliers' ability to provide critical items into the year 2000 and beyond. The effort merits strong management support.

Individual DoD Component Supplier Outreach

DoD Component Initiatives. Prior to the official establishment of the Joint Supplier Capability Working Group in September 1998, the Army and the Defense Logistics Agency (DLA) had taken a proactive role in the identification and subsequent inquiry of their critical suppliers to determine year 2000 compliance. However, neither the Navy nor the Air Force had taken systematic measures to assess the year 2000 compliance of their critical suppliers.

Army Materiel Command Year 2000 Program. In January 1998, the Army Materiel Command initiated a critical supplier assessment. The Army Materiel Command tasked its major subordinate commands to evaluate which suppliers provided the most critical items, to send each supplier a letter requesting an assessment of their year 2000 compliance, to determine which suppliers are critical and may not be compliant, and to prepare a plan to stockpile critical items from non-compliant critical suppliers.

Army Materiel Command Major Subordinate Commands. In order to acquire an understanding of the effectiveness of dealings with critical suppliers regarding the year 2000 computer problem, we contacted eight of the eleven Army Materiel Command major subordinate commands and visited one of these commands, the Tank-Automotive and Armaments Command (TACOM), Warren, Michigan.

TACOM. As part of the Army Materiel Command year 2000 supplier compliance initiative, TACOM used a survey letter to assess its suppliers' year 2000 status. The letter was not a directive to become year 2000 compliant, but a request for the supplier to disclose whether or not the supplier expected a significant impact on the ability to deliver products or services due to the year 2000 computer problem. TACOM identified over 8,700 suppliers and issued letters to all of them to assess whether their infrastructures were compliant. In addition, TACOM rated the criticality of its suppliers based on whether the supplier provided major vehicle systems or components of the systems; whether the supplier was a sole source supplier of a major component or other designated critical item; or whether the supplier produced a critical item requiring a long production lead time. As of September 1998, TACOM had received over 2,500 positive responses. TACOM is currently following up with the suppliers that did not respond to the letter.

Suppliers' Visits. We visited five suppliers within the Warren, Michigan metropolitan area that responded to the TACOM letter. Our audit confirmed the suppliers' awareness of the impact of year 2000 compliance on their operations.

DLA Year 2000 Program. Prior to June 1998, DLA had conducted limited year 2000 prime vendor supplier assessments in its managed commodities involving medical, subsistence, clothing and textile, and fuel supplies. In addition, DLA had conducted supplier assessments for its suppliers that had electronic data interface capability.

Medical Suppliers. DLA identified 13 prime vendor medical suppliers for pharmaceutical and surgical supplies and has required the suppliers to provide written confirmation of year 2000 compliance. In addition, 9 of the 13 prime vendor suppliers have signed contracts containing the Federal Acquisition Regulation year 2000 compliance language.

Subsistence Suppliers. DLA identified 47 regional prime vendor subsistence suppliers and included the Federal Acquisition Regulation year 2000 compliance language in subsistence contracts' statement of work. However, DLA had not asked its 47 prime vendor subsistence suppliers whether they are year 2000 compliant since DLA had developed regional contingency plans.

Clothing and Textiles Suppliers. DLA conducted a telephone survey with 89 prime vendor and electronic data interface suppliers and determined that the 89 clothing and textiles suppliers were year 2000 compliant. In addition, DLA will include the Federal Acquisition Regulation year 2000 compliance language in contracts that are being negotiated with clothing and textiles prime vendor suppliers.

Fuels. The American Petroleum Institute is conducting a year 2000 assessment of the refinery and oil industry. DLA will obtain the assessment information and determine the impact upon its 65 bulk fuel suppliers. In addition, DLA has confirmed that 13 of its 14 electronic data interface trading partners are year 2000 compliant. Currently, DLA is conducting a survey of 1,200 local suppliers of natural gas and electricity to military installations to

determine suppliers' year 2000 compliance. The survey will be completed in December 1998. DLA has developed contingency plans for fuel suppliers which would utilize the suppliers' capability for manual operations if control systems fail. The contingency plan also includes the requirement that DoD have an 8-month supply of war reserves at peace time consumption rates.

As of October 1998, DLA had developed a supplier year 2000 capability assessment plan to determine critical supplier capability to minimize critical supply chain disruption from suppliers' year 2000 failures.

DoD-Wide Supplier Outreach

DoD Management Strategy. In April 1997, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) issued the DoD Year 2000 Management Plan (the plan). The plan provided the overall strategy and guidance for addressing the year 2000 problem. Prior to June 1998, the plan only focused on strategies to resolve DoD information technology system year 2000 problems and did not contain an outreach strategy to assess the potential impact on the DoD mission from supplier disruptions or to encourage remedial action by vulnerable suppliers.

General Accounting Office Guidance. The General Accounting Office prepared an exposure draft, "Year 2000 Computing Crisis: Business Continuity and Contingency Planning," March 1998. The exposure draft provided conceptual guidance for Federal agencies to manage the risk of potential year 2000 induced disruption to their operations. Specifically, the guidance encouraged agencies to assess core business processes to ensure that all key business dependencies are clearly identified, including infrastructure and external sources of critical supplies and information.

Revised DoD Management Strategy. In June 1998, the Assistant Secretary revised the year 2000 strategy to require DoD Components to address potential year 2000 problems, including supplier disruptions, related to continuity of operations. The revised draft management plan provided minimum guidance on continuity of operations issues, however, and merely included the General Accounting Office's March 1998 exposure draft guidance as an appendix to the plan. As of October 1998, the plan had not been finalized.

Congressional Committee Hearings. As a result of questions posed to the Deputy Secretary of Defense during the Senate Armed Services Committee hearings of June 4, 1998, the Under Secretary of Defense for Acquisition and Technology set out to determine whether critical suppliers were year 2000 compliant. The Committee had expressed concerns that a disruption of the procurement and delivery of consumable and spare parts would occur on or after January 1, 2000. The Committee also expressed concerns about whether DoD had fully explored the impact on military capability if private sector contractors were not able to supply DoD because of a year 2000 related failure in their production and transportation systems.

Year 2000 Steering Committee. During the June 12, 1998 Federal Chief Information Officer Council Year 2000 Committee meeting, the Chairman, President's Council on Year 2000 Conversion, briefed DoD management that his staff had identified 32 sectors of the national and international economies that would need year 2000 assessments. DoD was appointed lead for Government efforts to promote year 2000 awareness, and remediation of information assets in the sector of Defense/International Security. The Department was also appointed to participate in 17 other sector efforts.

Year 2000 Tasking. On July 8, 1998, the Deputy Under Secretary of Defense (Logistics) accepted the responsibility for DoD-wide year 2000 critical supplier issues. The Deputy Under Secretary of Defense objective is to survey the year 2000 compliance status of DoD critical suppliers. Based on the survey results, DoD will identify and assess the risk of non-compliant critical suppliers with the intention of developing plans to ensure uninterrupted service. The Deputy Under Secretary of Defense (Logistics) memorandum of September 21, 1998, established the Group to accomplish those tasks.

Joint Supplier Capability Working Group

Structure and Mission of the Group. The Group is composed of functional logistics experts from each of the DoD Components and led by the Director, Logistics Systems Modernization. The Group will assess the mission criticality of supply chains within DoD, evaluate critical suppliers, and outline actions required to mitigate the risk of losing associated critical supplies. The Group will also assist with the overall assessment, centralized planning, and development of a DoD joint supplier capability mitigation plan.

Identification of Critical Suppliers

Critical Supplier Criteria. Critical DoD suppliers include suppliers of crucial consumable and repairable items. DLA will develop a list of consumable items and their suppliers and provide it to the Group. The Services will develop a list of repairable items and their suppliers and provide it to the Group. In conjunction with the identification of critical items and suppliers by the Services and DLA, the Joint Chiefs of Staff will evaluate the lists to ensure that critical weapon systems are adequately covered. The Group will refine the lists to eliminate duplicate suppliers. The Defense Contract Management Command (DCMC) will then lead the actual assessment of DoD critical suppliers' year 2000 status. All assessment data will be centralized in a DoD supplier database.

Consumable Items and Their Suppliers. DLA will incorporate the consumable critical items and their suppliers into a model that will determine those consumable items that are associated with the Services' most essential weapons systems. The coordination of the critical item list with the essential weapons model will refine the total number of consumable items and their suppliers to those most critical. The DLA will further prioritize the lists of the most critical items and their suppliers by applying factors such as acquisition lead-time and sole source procurements.

Repairable Items and Their Suppliers. The Services will initially identify their critical repairable items and will develop a prioritized list of suppliers based on items considered to be most critical. The Services will also assess the year 2000 compliance of certain suppliers who provide items deemed most critical. The Services' assessment will be performed in conjunction with the DCMC assessment of year 2000 compliance of critical suppliers.

Critical Supplier Assessment

Role of DCMC. DCMC will utilize its contract administration offices to assess the critical supplier year 2000 compliance. DCMC has proposed a two-step evaluation approach to assess critical suppliers.

Supplier Awareness. The first step will involve a telephone interview or an on-site visit to each critical supplier identified by the DoD Components. DCMC will determine whether the critical supplier has addressed the year 2000 problem and whether the critical supplier is already year 2000 compliant. No further review by DCMC will be necessary if DCMC obtains a high degree of confidence that the critical supplier is year 2000 compliant or if the critical supplier is not affected by the year 2000 computer problem.

Supplier Site Evaluation. If DCMC does not obtain a high degree of confidence with the critical supplier, a second step of the process will be a site evaluation of the supplier's year 2000 status. The evaluation will determine the impact of year 2000 on the critical supplier, the best method for the critical suppliers to achieve year 2000 compliance, the adequacy of year 2000 renovation plans, the availability and adequacy of the critical supplier's contingency plan, and an assessment of the critical suppliers' subcontracting and supply chain.

Year 2000 Information and Readiness Disclosure Act. There has been concern in the private sector regarding the potential of legal liability associated with the disclosure and exchange of year 2000 readiness information. In order to promote the free disclosure and exchange of information related to year 2000 readiness, the President signed Public Law 105-271, "Year 2000 Information and Readiness Disclosure Act," on October 19, 1998. The Act provides certain protections from disclosures made to the Government of year 2000 compliance information which may alleviate potential critical supplier resistance to submitting sensitive corporate information to DoD.

Conclusion

DoD faces increased risk of production and delivery disruptions because of belated focus on outreach to suppliers to ensure year 2000 conversion. However, efforts that began late in FY 1998 are a reasonable approach and merit strong management support. The Office of the Inspector General, DoD, plans to continue monitoring progress in the area and providing advice on outreach issues.

Part II - Additional Information

Appendix A. Audit Process

This is one in a series of reports being issued by the Inspector General, DoD, in accordance with an informal partnership with the Chief Information Officer, DoD, to monitor DoD efforts to address the year 2000 computing challenge. For a list of audit projects addressing the issue, see the year 2000 web page on the IGnet at <http://www.ignet.gov>.

Scope

Work Performed. We reviewed and evaluated DoD management progress in resolving the year 2000 computing issues relating to Defense critical suppliers. We evaluated the efforts of the Deputy Under Secretary of Defense (Logistics) in establishing a management approach that would address the Department's strategy, responsibility, and coordination for assessing DoD critical suppliers' year 2000 compliance. We provided feedback and advice to the Joint Supplier Capability Working Group as it formulated its strategy.

DoD-Wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, DoD has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting the objectives. This report pertains to achievement of the following objectives and goals.

Objective: Prepare now for an uncertain future.

Goal: Pursue a focused modernization effort that maintains U.S. qualitative superiority in key war fighting capabilities. **(DoD-3)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- Information Technology Management Functional Area. Objective: Become a mission partner. Goal: Serve mission information users as customers. (ITM-1.2)

- Information Technology Management Functional Area. Objective: Provide services that satisfy customer information needs. Goal: Modernize and integrate Defense information infrastructure. (ITM-2.2)

- Information Technology Management Functional Area. Objective: Provide services that satisfy customer information needs. Goal: Upgrade technology base. (ITM-2.3)

General Accounting Office High-Risk Area. In its identification of risk areas, the General Accounting Office has specifically designated risk in resolution of the year 2000 computing problem as high. This report provides coverage of that problem and of the overall Information Management and Technology high-risk area.

Methodology

Audit Type, Dates, and Standards. We performed this program audit from July through October 1998 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not rely on computer-processed data or statistical sampling procedures to develop conclusions on this audit.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and five suppliers within the Warren, Michigan metropolitan area. Further details are available upon request.

Management Control Program. We did not review the management control program related to the overall audit objective because DoD recognized the year 2000 issue as a material management control weakness area in the FY 1997 Annual Statement of Assurance.

Summary of Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to year 2000 issues. General Accounting Office reports can be accessed over the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed over the Internet at <http://www.dodig.osd.mil>.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Logistics)
    Director, Logistics Systems Modernization
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
  Year 2000 Oversight and Contingency Planning Office
  Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence, Surveillance, Reconnaissance, and Space Systems)
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Commander, Army Materiel Command
Auditor General, Department of the Army
Chief Information Officer, Army
Inspector General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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Chief Information Officer, Navy
Inspector General, Department of the Navy
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Department of the Air Force

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  Chief Information Officer, Defense Information Systems Agency
  United Kingdom Liaison Officer, Defense Information Systems Agency
Director, Defense Logistics Agency
  Commander, Defense Contract Management Command
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
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Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Special Committee on the Year 2000 Technology Problem
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Governmental Reform and Oversight
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

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