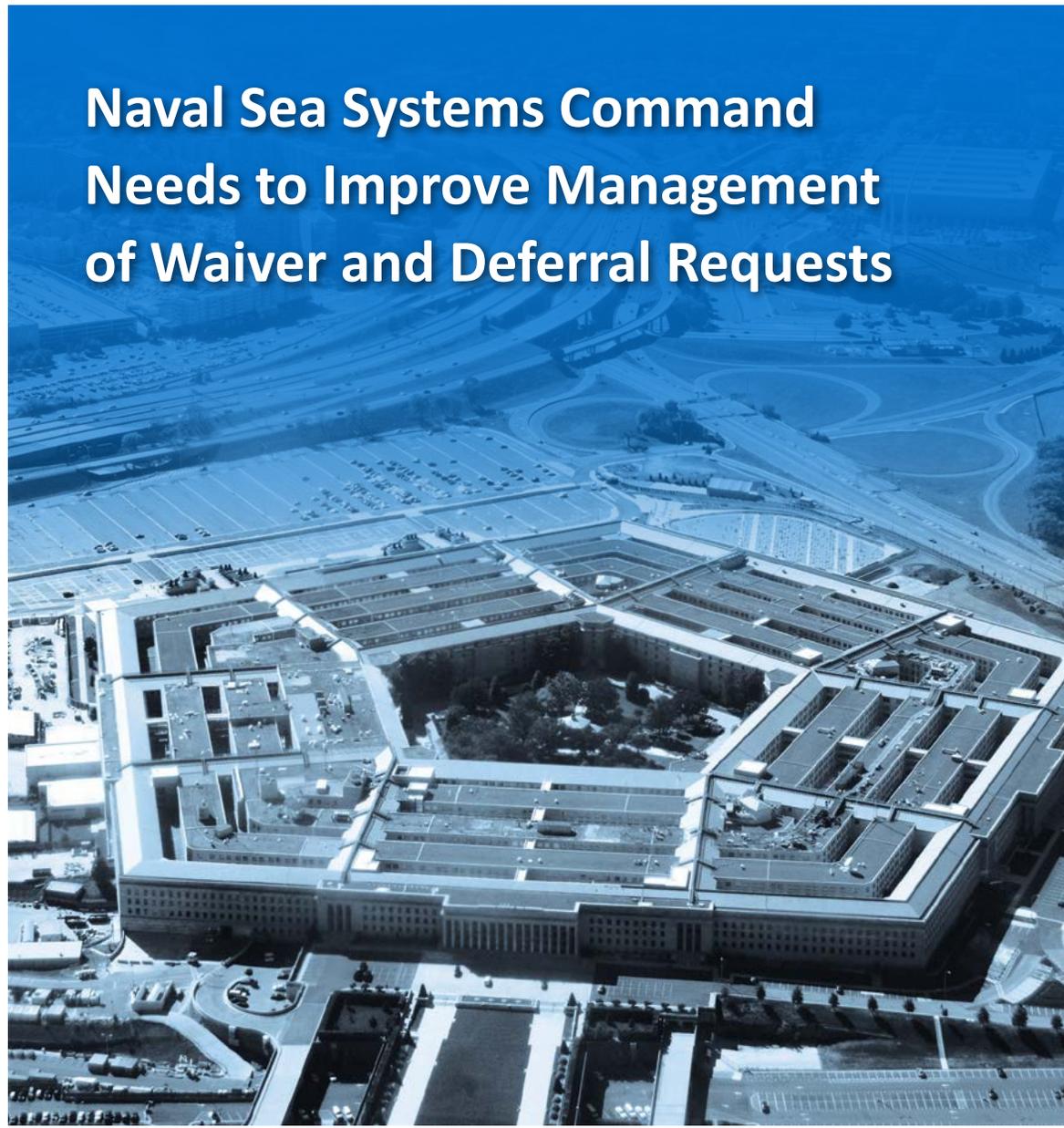




INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 14, 2015



Naval Sea Systems Command Needs to Improve Management of Waiver and Deferral Requests

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

Naval Sea Systems Command Needs to Improve Management of Waiver and Deferral Requests

September 14, 2015

Objective

Our overall objective was to evaluate the Navy's management of waivers and deferrals from operational test requirements for systems. The audit objective evaluated the process for justifying, reviewing, and approving waiver and deferral requests for the Identity Dominance System (IDS) and the Standard Missile 6 (SM-6) at Naval Sea Systems Command (NAVSEA).

Finding

NAVSEA program managers and system sponsors within the Office of the Chief of Naval Operations (CNO) did not fully implement Navy and Joint Chiefs of Staff (JCS) policy on requesting waivers and deferrals and certifying program readiness for Initial Operational Test and Evaluation (IOT&E) on the IDS and SM-6 programs. Specifically, program managers did not:

- request waivers when the IDS program did not meet two IOT&E certification criteria; and deferrals from testing 23 requirements, and
- communicate timely with the JCS and obtain concurrence on three testing deferrals to demonstrate primary system requirements for the SM-6.

These conditions occurred because Navy policy did not clearly state that program managers must request waivers whenever their program does not meet all criteria required before starting IOT&E, and request deferrals whenever system

Finding (cont'd)

requirements testing is delayed. In addition, Navy policy did not require system sponsors to notify JCS when testing deferrals impact meeting primary system requirements. Further, the NAVSEA policy on waivers and deferrals was outdated and did not reference relevant Navy policy.

As a result, the IDS entered and completed IOT&E with unresolved deficiencies and reduced mission effectiveness. The IDS deficiencies slowed the system's ability to match fingerprints against terrorists and other persons of interest on watch lists. Additionally, the SM-6 completed IOT&E without demonstrating primary system requirements for increased missile range, launch availability, and interoperability. At final production decision, the program managers had purchased 32 IDS tactical kits and 16 support kits valued at \$1.1 million and 41 SM-6 missiles valued at \$148.3 million. While CNO staff stated the systems improved existing capability, the systems had not demonstrated that they could fully perform their assigned missions.

Recommendations

We recommend the Vice Chairman, Joint Chiefs of Staff, revise the JCS guidance to require sponsors of Acquisition Category I programs, or programs of interest to the Joint Chiefs of Staff, to notify the JCS when deferrals will delay demonstrating primary system requirements beyond the scheduled date for initial operational capability.

We recommend the Secretary of the Navy revise Navy policy, after the Vice Chairman, Joint Chiefs of Staff revises the JCS guidance.

We recommend the Commander, Naval Sea Systems Command revise NAVSEA policy incorporating updated Navy policy on managing waivers and deferrals from operational test requirements.



Results in Brief

Naval Sea Systems Command Needs to Improve Management of Waiver and Deferral Requests

Management Comments and Our Response

We added Recommendation 1 to the Vice Chairman, Joint Chiefs of Staff, and renumbered the remaining recommendations in response to comments received on the draft report from the Deputy Department of the Navy Test and Evaluation Executive.

The Deputy Department of the Navy Test and Evaluation Executive, responding for the Secretary of the Navy disagreed with Recommendation 2. We revised this recommendation and, therefore, request that the Deputy provide comments on the revised recommendation. The Deputy, responding for the Commander, NAVSEA, agreed with Recommendation 3, and no further comments are required. Please see the Recommendations Table on the following page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Vice Chairman, Joint Chiefs of Staff	1	
Secretary of the Navy	2	
Commander, Naval Sea Systems Command		3

Please provide Management Comments by October 14, 2015.





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

September 14, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
VICE CHAIRMAN OF THE JOINT CHIEFS OF STAFF
DIRECTOR, OPERATIONAL TEST AND EVALUATION
NAVAL INSPECTOR GENERAL

SUBJECT: Naval Sea Systems Command Needs to Improve Management of Waiver
and Deferral Requests (Report No. DODIG-2015-172)

We are providing this report for review and comment. We determined that the Naval Sea Systems Command program managers and system sponsors within the Office of the Chief of Naval Operations (CNO) did not fully implement Navy and Joint Chiefs of Staff (JCS) policy on requesting waivers and deferrals and certifying program readiness for Initial Operational Test and Evaluation (IOT&E). As a result, the IDS entered and completed IOT&E with unresolved deficiencies and reduced mission effectiveness. Additionally, the SM-6 completed IOT&E without demonstrating primary system requirements for increased missile range, launch availability, and interoperability. At final production decision, the program managers purchased 32 IDS tactical kits and 16 support kits valued at \$1.1 million and 41 SM-6 missiles valued at \$148.3 million. While CNO staff stated the systems improved existing capability, the systems did not demonstrate that they could fully perform their assigned missions. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. We request that the Vice Chairman, Joint Chiefs of Staff provide comments on Recommendation 1, which we added in the final report. The Deputy Department of the Navy Test and Evaluation Executive, responding for the Secretary of the Navy, disagreed with Recommendation 2. Therefore, we request the Deputy provide comments on the revised recommendation by October 14, 2015.

Please send a PDF file containing your comments to audapi@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).


Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition, Parts, and Inventory

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Acronyms and Abbreviations

Introduction

Objective

Our overall objective was to evaluate the Navy's management of waivers and deferrals from operational test requirements for systems. The objective for this audit was to evaluate the process for justifying, reviewing, and approving waiver and deferral requests for the Identity Dominance System (IDS) and the Standard Missile 6 (SM-6) at Naval Sea Systems Command. This report is the second in a series of reports evaluating Navy's management of waivers and deferrals for systems. See Appendix A for a discussion of our scope and methodology and prior coverage related to the audit objectives.

Navy Policy on Waivers and Deferrals

Secretary of the Navy Instruction 5000.2E

Secretary of the Navy Instruction (SECNAVINST) 5000.2E,¹ establishes criteria for all Navy acquisition programs to certify that systems as ready to enter into initial operational test and evaluation (IOT&E).² IOT&E precedes the full-rate production (final production) decision. The instruction requires the Systems Command commander, program executive officer (PEO), or program manager to conduct an operational test readiness review (OTRR) certifying system readiness for IOT&E.

An OTRR is a product and process assessment for determining that a system can proceed into IOT&E with a high probability of successfully completing operational testing. Upon completing the OTRR, if the System Command commander, PEO, or program manager determine the system is ready to enter IOT&E, they must either certify to the:

- Commander, Operational Test and Evaluation Force that the system is ready for IOT&E, as required by the Test and Evaluation Master Plan (TEMP), with no waivers or deferrals requested, or
- Chief of Naval Operations (CNO) (N84), Director Innovation, Test and Evaluation, and Technology Requirements that the system is ready for IOT&E, with requests for waivers or deferrals.

¹ Secretary of the Navy Instruction (SECNAVINST) 5000.2E, "Department of the Navy Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System," September 1, 2011.

² Initial Operational Test and Evaluation is the dedicated operational test and evaluation conducted on production representative articles, to determine whether systems are operationally effective, and suitable to support a final production decision.

SECNAVINST 5000.2E also states when waiver or deferral requests are anticipated, the program manager must coordinate with the program sponsor, CNO (N84), and the Commander, Operational Test and Evaluation Force before the OTRR. The program sponsor must then formally concur with the proposed waivers or deferrals. Additionally, when the System Command commander, PEO, and program manager certify system readiness for IOT&E with waivers or deferrals, they must provide the program sponsor within the Office of the CNO an information copy of the certification. Concurrence with waivers and deferrals effects program execution as follows:

- **Waivers** are a deviation from the criteria identified for certifying IOT&E readiness. Waivers allow programs to start IOT&E without meeting one or more of the 20 criteria SECNAVINST 5000.2E requires to certify readiness to enter IOT&E. Waivers do not change or delay any system or testing requirements.
- **Deferrals** allow programs to delay the testing of requirements identified in the TEMP, moving testing requirements from IOT&E to a later follow-on test period.

Waiver and deferral approvals can result in more rapid delivery of capabilities operating Navy Forces. However, the System Command commander, PEO, or program manager must fully evaluate the potential impacts waivers and deferrals have on the mission capability delivered. Navy officials that waive certification criteria for IOT&E readiness or defer operational test requirements, risk making decisions that could result in premature final production decisions and require costly retrofit of fielded units that cannot defeat the identified threat. CNO (N84) staff stated that their “approval” of waivers and deferrals indicates that the program manager has followed the OTRR process and accepted the risks certifying program readiness for IOT&E.

Secretary of the Navy Manual M-5000.2

Secretary of the Navy Manual, M-5000.2,³ provides additional discretionary guidance for the Navy’s management of waivers and deferrals.

Naval Sea Systems Command

Naval Sea Systems Command (NAVSEA) is comprised of command staff, headquarters directorates, affiliated PEOs, and numerous field activities. Together, they engineer, build, buy and maintain ships, submarines and combat systems that meet the Fleet’s current and future operational requirements. NAVSEA is also

³ Secretary of the Navy Manual M-5000.2, “Acquisition and Capabilities Guidebook,” May 9, 2012, Section 4.6, “Certification of Readiness for Operational Testing.”

responsible for establishing and enforcing technical authority in combat system design and operation. These technical standards use the organization’s technical expertise making sure systems are engineered effectively, and that they operate safely and reliably.

Background on Programs Selected for Review

We identified two NAVSEA acquisition programs that received final production decisions from April 14, 2012, through April 14, 2014, the Identity Dominance System (IDS) and the Standard Missile-6 (SM-6).

Identity Dominance System

The IDS enables Navy Visit, Board, Search, and Seizure (VBSS) teams to collect biometric data (fingerprints, facial image, and iris scans) from individuals on boarded vessels. The IDS determines whether the collected data matches data from individuals on watch lists who are suspected or known to threaten U.S. and allied interests. The data collected is used for a “match/no match” notification as well as “detain/hold” status. This allows the team to separate friendly and neutral forces from adversaries and take appropriate action against our enemies. Although IDS is not a weapon system, the IOT&E certification criteria in SENAVINST 5000.2E still apply because IDS is a Navy acquisition program. Figure 1 depicts the VBSS team collection of biometric and related information from the boarded vessel and transmission to potential users.



Acronyms

BFC	Biometrics Fusion Center	USAF	United States Air Force
EMIO	Expanded Maritime Interception Operations	USCG	United States Coast Guard
GIG	Global Information Grid	USMC	United States Marine Corps
		USN	United States Navy

Standard Missile-6

The SM-6 provides air defense to defeat aircraft and anti-ship missiles. The Standard Missile has multiple variants, including the SM-2, SM-3, and SM-6. The SM-6 is designed to improve the air missile defense capabilities. Current Navy defensive missiles, including SM-2, have limited capabilities to engage threats at long distances or those over land, particularly where there is high clutter, such as dense trees and buildings. The table below shows the Standard Missile's multiple variants and the capabilities of each to defeat the enemy.

Table.

Standard Missile (SM) Versions	
SM-1	No longer used by the U.S. Navy.
SM-2	Provides surface-to-air defense for Navy fleet assets. Part of the AEGIS Weapon System aboard Ticonderoga-class cruisers and Arleigh Burke-class destroyers. Primary missions include ship self-defense and protecting other fleet assets located near the ship.
SM-3	Provides ballistic missile defense. Developed through the Missile Defense Agency as part of a ballistic missile defense system.
SM-4	Concept only, never deployed.
SM-5	Concept only, never deployed.
SM-6	Provides an extended range anti-air warfare capability both over sea and overland. Part of the AEGIS Weapon System aboard Ticonderoga-class cruisers and Arleigh Burke-class destroyers.

Source: SM-6 Project Office

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness in NAVSEA implementation of SECNAVINST 5000.2E policy for requesting waivers and deferrals and certifying program readiness for IOT&E. We also identified internal control weaknesses in SECNAVINST 5000.2E policy, which did not require system sponsors notifying Joint Chiefs of Staff (JCS) when testing deferrals impact key performance parameters (primary systems requirements). These control weaknesses allowed the IDS to enter and complete IOT&E with unresolved deficiencies and reduced mission effectiveness. We will provide a copy of the report to the senior official(s) responsible for internal controls in the Navy.

Finding

Naval Sea Systems Command Needs to Improve Management of Waiver and Deferral Requests

NAVSEA program managers and system sponsors within the Office of CNO did not fully implement Navy and JCS policy on requesting waivers and deferrals and certifying program readiness for IOT&E on the IDS and the SM-6 programs. Specifically:

- The IDS program manager did not request waivers when the program did not meet two IOT&E certification criteria; and, deferrals from testing 23 requirements.
- For more than 2 years, the SM-6 program sponsor did not obtain JCS concurrence on three testing deferrals of primary system requirements.

These conditions occurred because Navy policy did not clearly state that program managers must request waivers whenever their program does not meet all criteria required before starting IOT&E, and request deferrals whenever system requirements testing is delayed. In addition, Navy policy did not require system sponsors to notify JCS when testing deferrals impact primary system requirements. Further, the NAVSEA policy on waivers and deferrals was outdated and did not reference relevant Navy policy.

As a result, the IDS completed IOT&E with unresolved deficiencies and reduced mission effectiveness in matching fingerprints against terrorists and persons of interest on watch lists. Additionally, the SM-6 completed IOT&E without demonstrating primary system requirements for increased missile range, launch availability, and interoperability. Further, the SM-6 sponsor concurred with deferring testing the system's ability to meet primary requirements without giving the JCS the opportunity to assess the effect of those deferrals on the system's military usefulness. At final production decision, the program managers had purchased 32 IDS tactical kits and 16 support kits valued at \$1.1 million and 41 SM-6 missiles valued at \$148.3 million. While CNO staff stated the systems improved existing capability, the systems had not demonstrated they could fully perform their assigned missions.

Waivers and Deferrals Policy Not Implemented

The IDS and SM-6 program managers did not fully implement Navy and JCS policy when requesting waivers and deferrals before entering IOT&E.

Identity Dominance System Waivers and Deferrals

The IDS program manager did not demonstrate that the system met 2 of 20 criteria specified in a Navy instruction⁴ certifying readiness for IOT&E and did not request waivers for those unmet criteria. The certification criteria requiring waivers were:

- test and evaluation results must indicate that system performance requirements identified in the TEMP⁵ have been satisfied or are projected to meet the level of system maturity identified in the system requirements document; and
- the program manager must satisfy the TEMP entrance criteria for IOT&E.

The IDS program did not meet the TEMP performance requirements for timely matching fingerprints against those in a 100,000 person watch list.

The IDS program did not meet the TEMP performance requirements for timely matching fingerprints against those in a 100,000 person watch list. The system requirements document states that the “fundamental purpose” of the IDS is to “establish and verify the identity of unknown individuals.” IDS does this identity verification through fingerprints, iris scans and facial images. The requirements document states that IDS match fingerprints against a local data base of 100,000 records within one minute, because accessing networks and online data may not exist in austere environments. Warfighters need to quickly enroll individuals, verify their identity, and match fingerprints against local data and watch lists. The TEMP lists the matching time requirement as a critical technical parameter, and then defines critical technical parameters as representing the performance necessary to meet primary system requirements.

In response to a discussion draft of this report, the program manager stated that IDS was not required to submit a waiver because the program had satisfied all IOT&E certification criteria. Specifically, the TEMP was fully executed and the IOT&E test report,⁶ indicated that all IDS operational issues were satisfactorily resolved, with the system demonstrating the capability to support all required missions. However, we determined that the IOT&E test report did not include

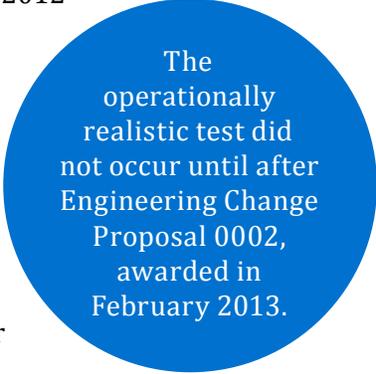
⁴ Secretary of the Navy Instruction (SECNAVINST) 5000.2E, “Department of the Navy Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System,” September 1, 2011.

⁵ Test and Evaluation Master Plan for AN/PYX-1 Identity Dominance System (IDS), June 15, 2010.

⁶ “Identity Dominance System Operational Test Agency Initial Operational Test Report,” December 14, 2012.

what should have been a significant test limitation regarding meeting the TEMP performance requirements for timely matching fingerprints against a 100,000 person watch list.

In a January 15, 2015, discussion we informed operational test staff in the Office of the Commander, Operational Test and Evaluation Force, that the first test of the IDS system to match fingerprints using an operationally realistic 100,000 person watch list did not occur until after the issuance of the December 2012 IOT&E report. An IDS program status report,⁷ issued in June 2014 documents this fact. The operationally realistic test did not occur until after Engineering Change Proposal 0002, awarded in February 2013. This test used a 100,000 person biometrically enabled watch list (meaning it contained real fingerprints). The June 2014 program status report stated that all previous IDS testing (including IOT&E) used “synthetic” 100,000 person lists for matching. This was a significant limitation of the IOT&E testing, because the synthetic lists contained fingerprints that were “pristine” and therefore easier to read and match than those in the biometrically enabled lists. The June 2014 program status report concluded that overall system performance was reduced and matching times increased when IDS was loaded with a 100,000 person biometrically enabled watch list.



The operationally realistic test did not occur until after Engineering Change Proposal 0002, awarded in February 2013.

Operational test staff stated they were aware the IOT&E used synthetic watch lists, but they did not report this as test limitation in their IOT&E report. The test staff agreed that they should have disclosed the use of the synthetic lists as a test limitation, explaining that use of synthetic lists did not accurately demonstrate intelligence collection in a realistic environment.

Additionally, the IDS program did not meet the TEMP entrance criteria for IOT&E, which required successful completion of a series of tests, including Integrated Test-1. The TEMP defines Integrated Test-1 as a series of field events where Service members demonstrate all features of the IDS in a variety of operational environments. Because the IDS did not demonstrate timely matching against the 100,000 watch list during Integrated Test-1, we believe the program manager did not fully meet the entrance criteria for IOT&E and should have requested a waiver.

The IDS program manager also did not comply with the Navy instruction requesting deferrals through CNO (N84), to delay test requirements directed in the TEMP. The TEMP outlines a test strategy intended to demonstrate all facets

⁷ IDS AN/PYX-1v1.6 (ECP 0002) Quicklook Report, June 9, 2014.

of the IDS in the hands of fleet operators. However, the program manager did not plan testing to demonstrate that the IDS met 23 system characteristics from the program requirements document. But, instead of requesting deferrals through CNO (N84), the program manager obtained a memorandum⁸ from the system sponsor⁹ that agreed with the following:

- 10 program requirements would not be implemented in the initial IDS fielding; and
- 13 requirements were unresolved, test results showed either failure or partial failure entering IOT&E.

This memorandum was similar to a deferral because it states that not implementing the 10 requirements and leaving 13 requirements unresolved through testing was “not an approval to permanently remove these requirements....” However, the memorandum did not include analysis the Navy instruction requires. Specifically:

- outlining the limitations that the deferral will have on the system under test including any potential impact on fleet use; and
- justifying the system is necessary, useful, and adds capability to the operating forces without demonstrating the deferred requirements.

The memorandum states that the program manager and the sponsor delayed testing the 23 requirements to meet budget constraints and scheduled Milestone C approval. We traced the 23 requirements in the memorandum to performance thresholds¹⁰ in the TEMP. The requirements affected at least 24 of 166 performance thresholds. For example, testing personnel used two performance thresholds to evaluate how well the IDS collected facial images and the quality of those images. We also reviewed an update of the TEMP,¹¹ issued on September 25, 2012, and determined that the 24 affected performance thresholds remained in the TEMP.

Standard Missile-6 Deferrals

The Director, Surface Warfare (OPNAV N96), and the sponsor for the SM-6 program, did not communicate with the JCS until nearly two years after delaying testing of primary system requirements. The Joint Chiefs of Staff Instruction¹² requires

⁸ “Concurrence for Requirements Not Implemented in Initial Fielding of Personnel Identification Version One (P1V1) from Capabilities Production Document (CPC),” June 14, 2012.

⁹ Head, Anti-Terrorism / Force Protection (AT/FP), Visit, Board, Search and Seizure (VBSS) Chemical, Biological, Radiological Nuclear Defense (CBRND) Branch, Surface Warfare Directorate (N96C4).

¹⁰ Performance thresholds are metrics used to evaluate how well the IDS accomplishes the mission and is supported in its intended operational environment.

¹¹ Test and Evaluation Master Plan for AN/PYX-1 Identity Dominance System (IDS), July 16, 2012.

¹² Chairman, Joint Chiefs of Staff Instruction 3170.011, “Joint Capabilities Integration and Development System,” January 23, 2015, Enclosure A, “Joint Capabilities Integration and Development System,” page A-17 Section (f) “Event Driven Reviews.”

JCS review when there are schedule changes that require validating primary systems requirements modifications. This review allows JCS to assess continued military system usefulness and may result in a program evaluation or modification to production increments. Additionally, the JCIDS manual¹³ states that failure of a system to meet primary systems requirements results in a validation of an updated primary systems requirement threshold value, modification of production increments, or recommendation for program cancellation. The JCS was the validation authority for SM-6 requirements.

On June 10, 2011, the Integrated Weapon PEO Systems requested eight deferrals moving testing requirements from IOT&E to a later test period. The program manager designated this later test period as Follow-On Operational Test and Evaluation and initial operational capability. The follow-on testing began in November 2013 and was scheduled to continue through the third quarter of FY 2015.¹⁴ Of the eight deferral requests, three requests delayed testing the following SM-6 primary system requirements:

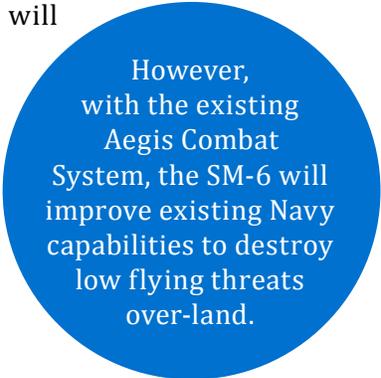
- full distance (range) is the limit a missile can intercept and neutralize a threat;
- interoperability is the ability to support military operations and effectively exchange information; and
- launch availability is the ability to successfully launch missiles from a combat ship, after storage of missiles on a combat ship beyond a specified period of time.

For the first two deferrals listed above, range and interoperability, the deferral requests state that the program manager cannot demonstrate these capabilities until the Navy completes future developments enhancing the Aegis Combat System. The Navy plans to use the Aegis Combat System, Baseline 9, to test the deferred requirements. The range deferral explains that until Aegis enhancements are complete and the SM-6 missile tested, the SM-6 missiles will not provide the fleet any additional range capabilities over the SM-2 Block IV Extended Range missile.

¹³ "Manual for the Operation of the Joint Capabilities Integration and Development System," (JCIDS), January 31, 2011 version - Enclosure B, "Performance Attributes and Key Performance Parameters," paragraph 1.b; January 19, 2012 version - Appendix A to Enclosure B, "Key Performance Parameters and Key System Attributes," Section 1, "Overview;" February 12, 2015 version - Appendix A to Enclosure D, "Development of Key Performance Parameters, Key System Attributes, and Additional; Performance Attributes, Section 1, "Overview."

¹⁴ Defense Acquisition Executive Summary Report for SM-6, February 12, 2015.

However, with the existing Aegis Combat System, the SM-6 will improve existing Navy capabilities to destroy low flying threats over-land. The interoperability deferral states the SM-6 ability to exchange information is limited to the already existing interfaces with other missile defense elements. The Program Manager stated that, with Aegis Combat System Baseline 9, the SM-6 will be able to fully demonstrate interoperability. The launch availability deferral was requested because safety requirements preclude storing developmental and operational ordnance, such as missiles, in an operational ship environment. The Navy will not store developmental SM-6 missiles on combat ships until after the missile is operational and introduced into the fleet.



However, with the existing Aegis Combat System, the SM-6 will improve existing Navy capabilities to destroy low flying threats over-land.

Navy Policy Unclear on When Program Managers Must Request Deferrals

OPNAV N96, the SM-6 system sponsor, did not communicate with the JCS on the SM-6 request to defer testing because Navy policy¹⁵ did not provide adequate direction. The Joint Chiefs of Staff Instruction¹⁶ requires sponsors and the JCS interaction when there are schedule changes that require validating primary systems requirements modifications. This interaction allows JCS to assess continued military system usefulness and may result in a program evaluation or modification to production increments.¹⁷

The JCS Instruction requires interaction to occur between Service system sponsors and the JCS when there are schedule changes that require modifications to validated primary systems requirements. However, Navy policy did not include this interaction requirement when discussing deferral requests. As a result, the JCS was not provided an opportunity to discuss the military utility of the SM-6 or the program manager's actions to demonstrate system capabilities until the Defense Acquisition Board meeting to support the final production decision. Therefore, JCS lost the opportunity to comment on those earlier decisions or recommend alternative action. The JCIDS Manual states that the validation

¹⁵ SECNAVINST 5000.2E, Section 4.6.2.2, "Certification for OT with T&E Exceptions."

¹⁶ Chairman, Joint Chiefs of Staff Instruction 3170.011, "Joint Capabilities Integration and Development System," January 23, 2015, Enclosure A, "Joint Capabilities Integration and Development System," page A-17 Section (f) "Event Driven Reviews."

¹⁷ "Manual for the Operation of the Joint Capabilities Integration and Development System," (JCIDS), February 12, 2015 version – Appendix A to Enclosure D, "Development of Key Performance Parameters, Key System Attributes, and Additional Performance Attributes, Section 1, "Overview;" January 19, 2012 version – Appendix A to Enclosure B, "Key Performance Parameters and Key System Attributes," Section 1, "Overview;" and January 31, 2011 version – Enclosure B, "Performance Attributes and Key Performance Parameters," paragraph 1.b.

authority for requirements documents on Acquisition Category I programs, such as SM-6, and other programs designated of interest to the JCS,¹⁸ is within the offices of the JCS. Because the validation authority for the SM-6 requirements was within the JCS, OPNAV N96 should have notified JCS of the planned deferral until after IOT&E testing to demonstrate the system can meet primary systems requirement thresholds. This notification from OPNAV N96 would have given the JCS the opportunity to reevaluate the program requirements before agreeing with the deferral.

Navy Plans to Update Instruction

In response to our Naval Air Systems Command report,¹⁹ the Secretary of the Navy plans to provide updated policy guidance to include the clarifications below regarding waivers and deferrals:

- replace the term “waiver” with “deviation from SECNAV policy,” requiring the PEO to notify the Assistant Secretary of the Navy for Research, Development, and Acquisition that a program will proceed to operational test without achieving one or more of the 20 specified certification criteria for starting this test phase;
- replace the term “deferral” with “deferral of test requirements,” and will apply to a delay in testing capabilities identified in the current requirements document and agreed-to in the TEMP;
- emphasize when requesting a deviation in the OTRR certification message, the PEO identifies which of the 20 certification criteria were not met and state why the decision was made to proceed to operational test without meeting those specific criteria; and
- require a summary in the OTRR briefing charts of the program office assessment of the 20 criteria and make sure that each criteria is discussed in adequate detail to support the program office assessment.

The above policy clarifications should help Navy program managers and PEOs request waivers and deferrals when warranted. However, the Secretary of the Navy should update SECNAVINST 5000.2E to require sponsors to communicate with JCS on deferrals that affect demonstrating primary system requirements on programs designated as Acquisition Category I, or of interest to the JCS.

¹⁸ Includes Acquisition Category II and below programs that have a potentially significant impact on interoperability.

¹⁹ Report No. DODIG-2015-122, “Naval Air Systems Command Needs to Improve Management of Waiver Requests,” May 15, 2015.

NAVSEA Policy Needs Revision

We determined NAVSEA policy on waivers and deferrals had not been revised to align with policy in SECNAVINST 5000.2E. For example, NAVSEA Instruction 3960.2D²⁰ refers to the Office of the Chief of Naval Operations (OPNAV) Instruction 3960.10C (Draft), which the Navy cancelled in November 2001. Navy policy requires periodic reviews of directives to make sure they are in compliance with standards and procedures and recommends that those reviews be conducted annually.²¹ The Commander, NAVSEA should update NAVSEA Instruction 3960.2D, “Test and Evaluation,” April 22, 1988, to reference and provide guidance that implements the revised SECNAVINST 5000.2E.

Conclusion

The PEO could not as effectively consider program readiness for entering the IOT&E test phase because the IDS program manager did not request waivers. The PEO allowed the IDS to go into final production without demonstrating mission effectiveness matching fingerprints against terrorists and persons of interest on watch lists. At final production decision, the program manager had purchased 32 IDS tactical kits and 16 support kits valued at \$1.1 million.

For the SM-6, the JCS assessment of the impact of approved deferrals was delayed almost two years after the sponsor granted them. The SM-6 completed IOT&E without demonstrating primary system requirements for increased missile range, launch availability, and interoperability. At final production decision, SM-6 program staff stated the Navy had purchased 41 SM-6 missiles valued at \$148.3 million. While CNO staff stated the systems improved existing capability, they had not demonstrated that they could fully perform their assigned missions.

Management Comments on the Finding and Our Response

The Deputy Department of the Navy Test and Evaluation Executive, responding for the Secretary of the Navy and the Commander, Naval Sea Systems Command, provided the following comments on the finding. The Deputy also provided comments on the Inspector General, DoD process for staffing the discussion draft. Appendix B summarizes those comments and our response. For the full text of the Deputy’s comments, see the Management Comments section of the report.

²⁰ Naval Sea System Command Instruction 3960.2D, “Test and Evaluation,” April 22, 1988.

²¹ OPNAVINST 5215.17, “Navy Directives Issuance System,” June 13, 2005, Enclosure 1, paragraph 3b. (4) and (5).

Department of the Navy Comments

The Deputy Department of the Navy Test and Evaluation Executive partially agreed with the finding and acknowledged that the policy in SECNAVINST 5000.2E needs updating to clarify leadership expectations of OTRR processes. The Deputy also stated an update to SECNAV 5000.2E was ongoing. The following pages summarize the Deputy's disagreements on the adequacy of the Navy's processes for granting waivers and deferrals and conducting OTRRs, and the Navy's application of the OTRR process for the IDS and SM-6 programs.

Waivers, Deferrals, and the OTRR Process

The Deputy stated:

- SECNAVINST 5000.2E requires that the PEO shall certify that a system is either certified to proceed to operational testing with no exceptions or certified to proceed to operational test with test and evaluation exceptions (waivers or deferrals).
- The OTRR is a culmination of many months program office effort. The program Test and Evaluation Working Integrated Product Team, which includes resource sponsors and experts in testing, logistics, and other subjects, determines the status of each of the 20 items of the OTRR certification criteria. There are also multiple iterations of the OTRR brief that are developed and reviewed before proceeding to the actual OTRR. This ensures that the PEO is provided objective data to make an informed decision at the OTRR.

IDS Program

The Deputy stated:

- IDS met all the OTRR certification criteria, as board members determined during the OTRR. Additionally, before the TEMP to support IOT&E was finalized and signed, a memorandum from the sponsor, dated June 14, 2012, provided concurrence that 23 requirements would not be implemented in the initial fielding of IDS (the Director referred to this memorandum as the "requirements clarification letter"). As a result of this memorandum, the corresponding test requirements were removed from the TEMP. Deferrals are required to address current requirements in the system requirements document, not requirements that were modified by a "requirements clarification letter." Additionally, none of the 23 requirements were primary or secondary system requirements. The OTRR determined the risks to be acceptable and agreed to move the program forward to IOT&E to expedite fielding of a partial capability.

- IDS successfully completed IOT&E. Specifically, the Commander, Operational Test and Evaluation Force, in the IOT&E report dated December 14, 2012, stated “All IDS Critical Operational Issues (COIs) were resolved satisfactorily and the system demonstrated the capability of successfully supporting all required missions;” and that IDS is “operationally effective and suitable.” Although the Commander acknowledged the reduced match time performance, the CNO deemed the performance acceptable and it did not hinder system effectiveness or suitability. Because the IOT&E report stated all critical operational issues were resolved, this indicates no test requirements were deferred. Therefore, the IDS program did not require a waiver or deferral.
- It is unclear what version of the TEMP the audit team used throughout their analysis. Specifically, footnote 5 in the draft report indicated that an earlier version of the IDS TEMP, dated June 15, 2010, was used in the analysis. The current version of the IOT&E TEMP is dated 16 July 2012. Although the audit report also references the later version of the TEMP.

SM-6 Program

The Deputy stated that the SM-6 program encountered technical limitations that precluded conducting operational testing of the entire system, as described in the requirements documents on the prescribed timeline.

Our Response

We recognize that during the OTRR program staff provides the PEO and other stakeholders with information beyond how the program accomplished the criteria to certify readiness for IOT&E and that there are multiple levels of program review. However, we determined during this audit and our prior audit of the Naval Air Systems Command²² that program managers did not always request waivers when a program did not meet certification criteria for proceeding to IOT&E. The Deputy also recognized this shortfall in his response to recommendations in our first report:

- ensure program managers request waivers whenever they do not meet any of the 20 criteria the Secretary of the Navy Instruction 5000.2E requires programs to meet to certify readiness for initial operational test and evaluation; and
- clarify Operational Test Readiness Review briefings to stakeholder groups should include specific explanations of program accomplishments against each of the 20 certification criteria.

²² Report No. DODIG-2015-122, “Naval Air Systems Command Needs to Improve Management of Waiver Requests,” dated May 15, 2015.

We do not agree with the Deputy's comments that the IDS program:

- met all OTRR certification criteria and required no waivers;
- did not require deferrals to delay testing 23 system requirements because the requirements clarification letter from the system sponsor modified system requirements; and
- successfully completed IOT&E.

As documented in the finding, there were two certification criteria the IDS program manager should have requested a waiver for because the system had not met the criteria before the OTRR. Specifically, the IDS did not meet the TEMP performance requirements for timely matching fingerprints against those in a 100,000-person watch list. The IDS also did not successfully complete Integrated Test 1, as specified in the TEMP entrance criteria for IOT&E.

The requirements clarification letter²³ did not modify IDS system requirements. Systems requirements, as defined in the program requirements document, remained the same. The memorandum does not state that requirements were modified. Instead, it explains the plans to field the initial IDS units without implementing 10 requirements and acknowledges that there were 13 additional requirements the system had failed demonstrating performance below required threshold levels.

The IDS test results in the December 14, 2012, IOT&E report are misleading. As discussed in the finding, operational test staff agreed in audit discussion that they should have disclosed the use of the synthetic fingerprint lists as an IDS test limitation. Use of synthetic fingerprint lists did not accurately demonstrate intelligence collection in a realistic environment with actual real fingerprints. On February 20, 2013, the Naval Sea Systems Command awarded Contract N00024-13-D-4209, which included a contract line item 0086, Detailed Design Update, to accomplish the changes needed to adhere to fingerprint time matching performance requirements. As stated in our draft report, the June 2014 program status report concluded that overall system performance was reduced and matching times increased when IDS was loaded with real fingerprints from the 100,000 person biometrically enabled watch list.

The Deputy commented that it was unclear which version (2010 or 2012) of the TEMP the audit team used to conduct its audit analysis. The audit team used both versions to identify whether any of the 23 requirements deferred affected performance thresholds.

²³ OPNAV N96C4 memorandum, "Concurrence for Requirements Not Implemented in Initial Fielding of Personnel Identification Version One (P1V1) from Capabilities Production Document," June 14, 2012.

We agree with the Deputy's statement that the SM-6 program encountered technical limitations that precluded conducting operational testing of the entire system. As we state in the report, the Integrated Weapon PEO Systems requested eight deferrals moving testing requirements from IOT&E to a later test period. However, our concerns are with the three of the eight deferrals that effected primary systems requirements and with the lack of communication with JCS to make sure there was still a valid need for the SM-6.

Recommendations, Management Comments, and Our Response

Added Recommendation

The Deputy Department of the Navy Test and Evaluation Executive stated in his comments to the draft report that the PEO and CNO staffs, and not the JCS, were responsible for assessing whether a system's shortfalls impact meeting program requirements when certifying a system to proceed to IOT&E. In subsequent discussion with audit staff, the JCS Deputy Chief, Joint Requirements Assessment Division agreed that, under procedures in the JCIDS Manual,²⁴ Navy management was correct. However, the Deputy Chief also stated that a "potential gap in the risk assessment mechanism" existed whenever Service managers decide internally to defer operational testing of primary system requirements. This enables programs, like the SM-6, to move forward to meet initial operational capability dates and avoid the requirement for a JROC review. The Deputy Chief suggested we add a recommendation to revise JCIDS procedures to close this risk assessment gap; therefore, we added Recommendation 1 for the Vice Chairman, Joint Chiefs of Staff implementation.

Revised Recommendation

We revised Recommendation 1 from the draft report (now Recommendation 2) to request Navy implementation of the recommendation only after the Vice Chairman, Joint Chiefs of Staff updates the JCIDS Manual, as provided in Recommendation 1. We also revised the recommendation to specify that sponsors for acquisition programs must notify JCS when deferrals to operationally testing system performance will delay demonstrating primary system requirements beyond the scheduled date for initial operational capability, as defined in the requirements document.

²⁴ "Manual for the Operation of the Joint Capabilities Integration and Development System," (JCIDS), February 12, 2015.

Recommendation 1

We recommend that Vice Chairman, Joint Chiefs of Staff, revise the Joint Capabilities Integration and Development System Manual to require sponsors of Acquisition Category I programs, or programs of interest to the Joint Chiefs of Staff, to notify the Joint Chiefs of Staff when deferrals to operationally testing system performance will delay demonstrating primary system requirements beyond the scheduled date for initial operational capability, as defined in the requirements document.

Recommendation 2

We recommend the Secretary of the Navy revise Secretary of the Navy Instruction 5000.2E, "Department of the Navy Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System," September 1, 2011, after the Vice Chairman, Joint Chiefs of Staff revises the Joint Capabilities Integration and Development System Manual in response to Recommendation 1.

Deputy Department of the Navy Test and Evaluation Executive (N84C) Comments

The Deputy Department of the Navy Test and Evaluation Executive, responding for the Secretary of the Navy, disagreed with the recommendation to require that sponsors of acquisition programs designated acquisition category I, or of interest to the JCS, notify JCS and allow them to evaluate program requirements before agreeing with deferrals that delay primary systems requirements testing. The Deputy stated that the Services have Title 10 authority to man, train, and equip systems. Joint Requirements Oversight Council has Title 10 authority over requirements, not acquisition implementation of them. Once the Joint Requirements Oversight Council validates the requirements, it becomes the CNO's responsibility to ensure requirements are met and the Assistant Secretary of the Navy for Research, Development, and Acquisition's responsibility to acquire the appropriate material solution.

The PEO, as Assistant Secretary's executive agent, in consultation with the CNO staff, is responsible for assessing whether a system shortfall impacts meeting requirements in the system requirements document when certifying a system to proceed to operational test. Existing policy in SECNAVINST 5000.2E paragraph 4.6.2.2 states that a PEO, when certifying a system to proceed to operational test with exceptions (waivers or deferrals), must certify to N84 that the system is ready for IOT&E, with waivers or deferrals requested. The PEO must provide information copies of the certification to the Navy sponsor. The

sponsor obtains formal concurrence with the proposed exceptions from the Assistant Secretary of the Navy for Research, Development, and Acquisition and the Commander, Operational Test and Evaluation Force. If the program is on the Office of the Secretary of Defense Test and Evaluation Oversight List, the sponsor also obtains concurrence from the Director, Operational Test and Evaluation.

The Navy's policy makes sure the flag officer delegated Title 10 responsibility from the CNO to develop requirements for systems to equip the fleet have determined system capabilities are adequate to enter Operational Testing. Adding a requirement to require JROC approval of a deferral would impact cost and schedule, provide no value, and require a number of Flag level briefs before starting the Joint Staff process.

Our Response

We agree that the PEO and CNO staff, and not the JCS, were responsible for assessing whether a system shortfall impacts meeting system requirements when certifying a system to proceed to IOT&E. However, the JCS Deputy Chief, Joint Requirements Assessment Division stated the current procedure, as documented in the JCIDS Manual, allows a "potential gap in the risk assessment mechanism." This gap results from limitations to the JCIDS Manual provisions for holding Joint Requirements Council and Joint Capabilities Board "tripwire" reviews of programs designated as Acquisition Category I, or of interest to the JCS.

As provided in the JCIDS Manual, tripwire reviews allow the JCS councils and boards to re-examine validated capability requirements, and the balance between performance levels and operational risk, to mitigate challenges in acquisition programs. Deviations from program acquisition unit cost, schedule, or quantity targets established at the time of requirements document validation trigger tripwire reviews. A schedule slip of more than 12 months to attain initial operational capability requires a tripwire review.²⁵

The Deputy stated the gap in the risk assessment mechanism occurs when Service managers decide internally to defer operational testing of some primary system requirements, allowing the program to meet initial operational capability dates and avoid the requirement for a JROC tripwire review. As a result, the program manager accepted systems that have not demonstrated that they could fully perform their assigned missions. In the case of the SM-6, the program moved forward to achieve initial operational capability in November 2013, which met the schedule established in the Acquisition Program Baseline.

²⁵ The Glossary of Defense Acquisition Acronyms and Terms, December 2012 defines initial operational capability as attained when a portion the units or organizations in the DoD force structure receive a system and have the ability to employ and maintain it. System requirements documents define the initial operational capability requirement for individual systems.

The Deputy Chief stated he believed the Joint Requirements Oversight Council, as validation authority for system requirements of Acquisition Category I programs and programs of interest to the Joint Chiefs of Staff, should be involved in weighing the balance between performance levels and operational risk for these programs. We added Recommendation 1, to revise the JCIDS Manual to allow for this Joint Requirements Oversight Council involvement. Accordingly, we request that the Secretary of the Navy respond to Recommendation 2 in this final report.

Recommendation 3

We recommend the Commander, Naval Sea Systems Command revise Naval Sea System Command Instruction 3960.2D, “Test and Evaluation,” April 22, 1988, to implement the Navy policy in the planned revision of Secretary of the Navy Instruction 5000.2E, “Department of the Navy Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System,” planned for designation as Secretary of the Navy Instruction 5000.2E.

Deputy Department of the Navy Test and Evaluation Executive (N84C) Comments

The Deputy Department of the Navy Test and Evaluation Executive responding for the Commander, Naval Sea Systems Command, agreed with the recommendation.

Our Response

Comments from the Deputy addressed the specifics of the recommendation, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from November 2014 through May 2015 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 interviewed key personnel and performed fieldwork at the following organizations.

- Joint Staff J-8 Force Structure, Resource, and Assessment, Washington D.C.
- Director, Operational Test and Evaluation, Washington D.C.
- Assistant Secretary of the Navy for Research, Development, and Acquisition, Washington D.C.
- Deputy Director for Naval Warfare, Washington D.C.
- Commander, Operational Test and Evaluation Force, Norfolk, Virginia
- Identity Dominance System Program Office, Washington D.C.
- Standard Missile-6 Program Office, Arlington, Virginia

We collected, reviewed, and analyzed documents dated April 1988 to February 2015. We reviewed requirements documents, test and evaluation plans and reports, operational test readiness review checklists and briefing charts, and program certification messages that requested waivers and deferrals to determine whether NAVSEA staff adequately justified, reviewed, and approved the waiver and deferral of operational testing requirements for acquisition of NAVSEA systems.

Additionally, we reviewed program planning and reporting documents and compared them to the policies and guidance in the following DoD and Navy issuances.

- Chairman of the Joint Chiefs of Staff Instruction 3170.01H, “Joint Capabilities Integration and Development System,” January 10, 2012
- “Manual for the Operation of the Joint Capabilities Integration and Development System,” January 19, 2012
- Defense Acquisition Guidebook, September 16, 2013

- Secretary of the Navy Instruction 5000.2E, “Department of the Navy Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System,” September 1, 2011
- Secretary of the Navy Manual 5000.2, “Department of the Navy Acquisition and Capabilities Guidebook,” May 9, 2012
- Naval Sea System Command Instruction 3960.2D, “Test and Evaluation,” April 22, 1988

Selection of Programs to Review

We obtained a query from Assistant Secretary of the Navy for Research, Development and Acquisition Information Systems database to identify Navy systems acquisition programs that received a final production decision from April 14, 2012, through April 14, 2014. We identified two NAVSEA programs (IDS and SM-6) and reviewed those programs and evaluated the command’s management of the waiver and deferral process.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued two reports discussing operational test waivers and deferrals. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

DoD IG

Report No. DODIG-2015-122, “Naval Air Systems Command Needs to Improve Management of Waiver Requests,” May 15, 2015

Report No. DODIG-2013-088, “The Navy P-8A Poseidon Aircraft Needs Additional Critical Testing Before the Full-Rate Production Decision,” June 10, 2013

Appendix B

Department of the Navy Comments Regarding Staffing of Discussion Draft Report

In addition to commenting on the draft findings and recommendations, the Deputy Department of the Navy Test and Evaluation Executive also commented on the Inspector General, DoD process for staffing the discussion draft. The following is a summary of the Deputy's comments and our response.

Department of Navy Comments

The Deputy stated that the Navy did not have adequate time to review the discussion draft report that the audit team provided without any warning before a 3-day weekend with a 3-day turnaround. He stated that the 3-day suspense caused an unnecessary time compression and administrative burden. The Deputy also stated that NAVSEA staff worked overtime to provide initial comments to Navy headquarters, and the 3-day timeframe did not allow Navy headquarters to review or endorse the comments before the due date. The Deputy recommends that the audit team:

- eliminate the initial discussion draft review and only conduct the formal 30-day review with a formal adjudication process; or
- extend the timeline for the discussion draft review to 7 days to provide the Navy adequate time to thoroughly review and comment on the discussion draft.

The Deputy further stated that the comments he previously provided to the discussion draft were not incorporated into the draft report and no adjudication opportunity was conducted to make sure we understood Navy comments. The Deputy recommends that we implement a final comment adjudication review to make sure the audit team considered comments provided.

Our Response

The Deputy's comments that the discussion draft was "...provided without any warning before a 3-day weekend with a 3-day turnaround" are misleading. We sent an e-mail to N84 requesting Navy comments on the discussion draft at 6:57 AM on May 14, 2015. We requested that Navy provide comments by close of business May 19, 2015. Therefore, the Navy actually had 4 business days to respond to the discussion draft, and the 3-day weekend did not occur until after the due date for the response.

While we acknowledge that a 4-day turnaround is a short time to provide comments on the accuracy of the report, in our message, we also offered to provide a formal briefing on the audit results. The Navy never requested that we provide this briefing. We also offered to provide another formal briefing on the draft report audit results. Additionally, during the entrance briefings, at the beginning of the audit, we explained that we would provide a discussion draft with a short (3-4 days) response time to identify any factual errors or suggestions for possible revisions. The formal signed draft report would follow and NAVSEA would have 30 days to respond to the draft report.

We acknowledge that we did not fully incorporate a clarification that the IDS was not a weapon system throughout the draft report. We have made the necessary corrections in the final report.

Management Comments

Department of Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
2000 NAVY PENTAGON
WASHINGTON, D.C. 20350-2000

07 Aug 2015

MEMORANDUM FOR INPSECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: "NAVAL SEA SYSTEMS COMMAND NEEDS TO IMPROVE
MANAGEMENT OF WAIVER AND DEFERRAL REQUESTS", (D2015-D000AE-0081.000)

The Navy has reviewed the subject report and partially concurs with the findings and recommendations. NAVSEASYSCOM (PMS 408 and IWS 3.0) and OPNAV (N84/N803) assisted the DODIG during the conduct of this audit, and the report and responses were socialized within the offices of the Assistant Secretary of the Navy (Research, Development and Acquisition), the Chief of Naval Operations and NAVSEASYSCOM. Our response to your draft report is enclosed.

Responsibility for implementing the proposed changes that the Navy concurs with is the responsibility of OPNAV N84. My point of contact for this action is [REDACTED]

A handwritten signature in cursive script, reading "Carroll P. Quade", is positioned above the typed name.

Carroll P. Quade
Deputy Department of the Navy
Test and Evaluation Executive (N84C)

Departments of Navy Comments (cont'd)

NAVY RESPONSE TO
DODIG DRAFT AUDIT REPORT, "NAVAL SEA SYSTEMS COMMAND NEEDS TO
IMPROVE MANAGEMENT OF WAIVER AND DEFERRAL REQUESTS", D2015-
D000AE-0081.000, DATED 25 JUNE 2015

Finding: Naval Sea Systems Command Needs to Improve Management of Waiver and Deferral Requests

NAVSEA program managers and weapon system sponsors within the Office of CNO did not fully implement Navy and JCS policy on requesting waivers and deferrals and certifying program readiness for IOT&E on the IDS and the SM-6 programs. Specifically:

- The IDS program manager did not request waivers when the program did not meet two IOT&E certification criteria; and, deferrals from testing 23 requirements.
- For more than 2 years, the SM-6 program sponsor did not obtain JCS concurrence on three testing deferrals of primary system requirements.

These conditions occurred because Navy policy did not clearly state that program managers must request waivers whenever their program does not meet all criteria required before starting IOT&E, and request deferrals whenever system requirements testing is delayed. In addition, Navy policy did not require weapon system sponsors to notify JCS when testing deferrals impact primary system requirements. Further, the NAVSEA policy on waivers and deferrals was outdated and did not reference relevant Navy policy.

As a result, the IDS completed IOT&E with unresolved deficiencies and reduced mission effectiveness in matching fingerprints against terrorists and persons of interest on watch lists. Additionally, the SM-6 completed IOT&E without demonstrating primary system requirements for increased missile range, launch availability, and interoperability.

Further, the SM-6 sponsor concurred with deferring testing the system's ability to meet primary requirements without giving the JCS the opportunity to assess the effect of those deferrals on the system's military usefulness. At final production decision, the program managers had purchased 32 IDS tactical kits and 16 support kits valued at \$1.1 million and 41 SM-6 missiles valued at \$148.3 million. While CNO staff stated the systems improved existing capability, they could not fully perform their assigned missions.

OPNAV Response

N84: Do not concur

1. The existing SECNAVINST 5000.2 para 4.6.2 states "The SYSCOM commander, PEO, and DRPM shall, unless otherwise directed by ASN(RD&A) for programs on the OSD T&E oversight list, make one of the following certifications". The next two paragraphs of the instruction detail the two certifications, and state that the PEO shall certify, by naval message, that a system is either certified to proceed to Operational Testing (OT) with no exceptions, or certified to proceed to OT with T&E exceptions (waivers or deferrals). Deferrals are required only to address current requirements in the CDD/CPD – not requirements that have been modified by a resource sponsor Requirements Clarification Letter.

N84 does acknowledge that the current SECNAV 5000.2E policy could be updated to provide more clear guidance on leadership expectations of OTRR processes, and is in the process of staffing that update.

Departments of Navy Comments (cont'd)

NAVY RESPONSE TO
DODIG DRAFT AUDIT REPORT, "NAVAL SEA SYSTEMS COMMAND NEEDS TO
IMPROVE MANAGEMENT OF WAIVER AND DEFERRAL REQUESTS", D2015-
D000AE-0081.000, DATED 25 JUNE 2015

2. The Navy Operational Test Readiness Review (OTRR) process facilitates the PEO decision on whether to proceed to operational test and evaluation. The OTRR is a culmination of many months of effort by the program office. The program Test and Evaluation Working Integrated Product Team (T&E WIPT), which includes resource sponsors, DOT&E and DASD (DT&E), N842, COTF, logistics, technical test experts, training and other Subject Matter Experts (SMEs), determines the status of each of the 20 items of the OTRR certification criteria. The WIPT also determines the level of detail that each of the criteria should be discussed at the OTRR. Multiple iterations of the brief are developed and reviewed before presenting to the PM and the Deputy PEO before proceeding to the actual OTRR. There are many layers of expert review to ensure that PEO is provided objective data to make an informed decision at the OTRR.
3. Regarding the SM-6 program, technical limitations precluded conducting operational testing of the entire system as described in requirements documents on the prescribed timeline. For IDS, the program resource sponsor issued a Requirements Clarification Letter relieving the PM of providing 23 CDD specified requirements at IOT&E. Based upon these facts, the respective PEO/PM made an informed risk-based decision to proceed to operational testing that had the support of all program stakeholders, including DOT&E and the warfighter representative (program resource sponsor). That assessment balanced the operational impact of an incremental fielding approach that expedited fielding of a partial capability improving warfighter capability against delaying fielding any capability until all requirements are met. It should be noted that IDS met all KPPs and KSAs in their OT.
4. N84 recommended to DODIG to interview the owners of the Navy Requirements process - CNO JCIDS gatekeeper staff (OPNAV N803) and the Requirements Officers. It is our understanding that these discussions did not occur. If they had, DODIG would have gained a better understanding of their roles in the , requirements development and staffing process.

NAVSEA Response

NAVSEA 06 (PMS-408): Do not concur

All IOT&E certification criteria were satisfied and concurred to by the board members during the Operational Test Readiness Review (OTRR). Before the IOT&E Test and Evaluation Master Plan (TEMP) was finalized and signed on 25 September 2012, an OPNAV N96C4 memorandum, dated 14 June 2012, provided concurrence that 23 requirements would not be implemented in the initial fielding of IDS. As a result, the corresponding test requirements were removed from the TEMP. None of the 23 requirements were Key Performance Parameters (KPP) or Key System Attributes (KSA).

The OTRR determined the risks to be acceptable and concurred to move the program forward to IOT&E. COMOPTEVFOR's IDS IOT&E was completed successfully and determined that IDS met all its KPPs and associated KSAs. The IOT&E report of 14 December 2012 also stated, "All IDS Critical Operational Issues (COIs) were resolved satisfactorily and the

Departments of Navy Comments (cont'd)

NAVY RESPONSE TO
DODIG DRAFT AUDIT REPORT, "NAVAL SEA SYSTEMS COMMAND NEEDS TO
IMPROVE MANAGEMENT OF WAIVER AND DEFERRAL REQUESTS", D2015-
D000AE-0081.000, DATED 25 JUNE 2015

system demonstrated the capability of successfully supporting all required missions"; and that the IDS is "operationally effective and suitable."

IDS was not required to submit a testing deferral as the program did not delay any testing requirements in the IOT&E TEMP. Furthermore, SECNAVINST 4.6.2.2.1.2 states, "Deferred items cannot be used in the analysis to resolve COIs." The fact that all IDS COIs were resolved per COMOPTEVFOR's IOT&E findings, indicates that no test requirements were deferred. Therefore, the IDS program did not require a waiver or deferral.

COMOPTEVFOR's IOT&E report stated that match time recorded during the test was acceptable to the users. The reduced match time performance was acknowledged in the report, but it was deemed acceptable by OPNAV and did not prevent system effectiveness or suitability. COMOPTEVFOR's IOT&E test plan dated 16 Aug 2012 stated in para 2.5.1, "The extended wait time is not apparent to the operator during a standard enrollment as the matching process begins when fingerprint collection is completed and makes a match determination prior to the enrollment being completed." Further it states, "Based on the lack of impact to the operator, the program sponsor has accepted the tradeoff between match time and the other requirements."

Note: The audit report Reference 5 (footnote) indicated that an earlier version of the IDS TEMP, dated 15 June 2010, was used in the analysis. The current version of the IOT&E TEMP is dated 16 July 2012. Although the audit report also references the later version of the TEMP, it is unclear which TEMP version was used throughout the analysis.

PEO IWS 3.0 (SM-6): Do Not concur

Agree with N84 comments above.

Recommendation 1: We recommend the Secretary of the Navy revise Secretary of the Navy Instruction 5000.2E, "Department of the Navy Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System," September 1, 2011, to require that sponsors of acquisition programs designated as Acquisition Category I, or of interest to the Joint Chiefs of Staff, notify the Joint Chiefs of Staff and allow them to evaluate program requirements before agreeing with deferrals that delay primary system requirements testing.

OPNAV Response:

N803/N84: Do not concur

Services have the Title 10 authority to man, train, and equip. JROC has Title 10 authority over requirements, not acquisition implementation of them. Once the JROC validates the requirements, it becomes the CNO's responsibility to ensure they are met, and ASN(RDA)'s responsibility to acquire the appropriate material solution. The PEO, as ASN(RDA)'s executive agent, in consultation with the CNO staff, is responsible for assessing whether a system shortfall impacts

Departments of Navy Comments (cont'd)

NAVY RESPONSE TO
DODIG DRAFT AUDIT REPORT, "NAVAL SEA SYSTEMS COMMAND NEEDS TO
IMPROVE MANAGEMENT OF WAIVER AND DEFERRAL REQUESTS", D2015-
D000AE-0081.000, DATED 25 JUNE 2015

meeting CDD/CPD requirements when certifying a system to proceed to OT. Existing SECNAVINST Policy paragraph 4.6.2.2 states that a PEO must follow the following policy when certifying a system to proceed to OT with Exceptions – which encompasses both waivers and deferrals.

"Certification for OT with T&E Exceptions

Certify to CNO (N84) or DC, CD&I by message that a system is ready for OT (specific operational test phase), as required by the TEMP, with waiver and or deferral requests. *Provide information copies to the program sponsor (Navy only, who must provide formal concurrence with proposed exceptions), ASN(RD&A), COMOPTEVFOR and Director, MCOTEA, and when a program is on the OSD T&E oversight list, to DOT&E.*" (italics added for accent).

This policy ensures that the flag officer delegated Title 10 responsibility from the CNO to develop requirements for systems that will equip the fleet have executed that responsibility in determining that the system capabilities are adequate to proceed to Operational Testing.

Adding a requirement for a deferral to be approved by the JROC would result in cost and schedule impacts that provide no value. It would require a number of Flag level briefs - up to the four star level – to staff internally to the Navy prior to it starting the Joint Staff process.

NAVSEA Response:

NAVSEA 06 (PMS-408): Do not concur

Agree with N803/N84 response

PEO IWS 3.0 (SM-6): Do not concur

Agree with N803/N84 response

Recommendation 2: We recommend the Commander, Naval Sea Systems Command revise Naval Sea System Command Instruction 3960.20, "Test and Evaluation," April 22, 1988, to implement the Navy policy in the planned revision of Secretary of the Navy Instruction 5000.2E, "Department of the Navy Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System," planned for designation as Secretary of the Navy Instruction 5000.2F.

OPNAV Response:

N84: Concur

NAVSEA Response:

NAVSEA 06 (PMS-408): Concur

Departments of Navy Comments (cont'd)

NAVY RESPONSE TO
DODIG DRAFT AUDIT REPORT, "NAVAL SEA SYSTEMS COMMAND NEEDS TO
IMPROVE MANAGEMENT OF WAIVER AND DEFERRAL REQUESTS", D2015-
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PEO IWS 3.0 (SM-6): Concur

Overall comments:

1. The Navy did not have adequate time to review the discussion draft report. It was provided to the Navy without any warning prior to a three day weekend with a three day turnaround. This created a completely unnecessary time compression and administrative burden. NAVSEA worked overtime to provide an initial comment to Navy staff – but this did not allow time for Navy HQ staffing. The resulted in no Navy HQ review or endorsement prior to the due date. Following the initial review, the final GAO draft was provided with a 30 day review period.

The Navy recommends that either: 1) The DODIG eliminate the initial discussion draft review and only conduct a formal 30 day review, with a formal comment adjudication process as discussed below, or 2) The DODIG extend the timeline for the initial review to seven days to provide the Navy adequate time to thoroughly review and comment on the initial decision draft report.

At a minimum, the audited organizations should be informed of the intended delivery date and schedule so that they can be prepared to staff the draft report.

2. The Navy is concerned that previously provided comments (some were factual in nature) to discussion draft reports were not incorporated into the final draft report, and no comment adjudication opportunity was conducted to ensure that the DODIG understood the comments. After a Navy initiated phonecon to review the final report, it was determined that the omissions were a combination of administrative errors, DODIG confusion regarding interpretation of Navy comments, and differences of opinion between DODIG and Navy. It is recommended that the DODIG implement a final comment adjudication review as standard procedure to allow the audited organization to understand how comments were adjudicated and allow for better understanding on why comments were not incorporated into the report.

Classification Review:

Navy has reviewed the report and there is no need for any classification markings on the document

Acronyms and Abbreviations

CNO	Chief of Naval Operations
IDS	Identity Dominance System
IOT&E	Initial Operational Test and Evaluation
JCIDS	Joint Capabilities Integration and Development System
JCS	Joint Chiefs of Staff
NAVSEA	Naval Sea Systems Command
OTRR	Operational Test Readiness Review
PEO	Program Executive Officer
SECNAVINST	Secretary of the Navy Instruction
SM-6	Standard Missile 6
TEMP	Test and Evaluation Master Plan

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