

Supplier Audit Program

Supplier Audit Program (SAP) Instruction



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Rev B

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ii. RECORD OF REVISION

Revision	Description
Original	Initial Issue on March 23, 2002
A	<p>All Supplier Audit Program was Critical Supplier Program, Defense Contract Management Agency was Defense Contract Management Command</p> <p>Page 2 Added record of revision</p> <p>Page 3 Clarified the periodicity goals of performing process audits</p> <p>Page 4 Clarified responsibilities, required unsat audit checks be added to PDREP, clarified audit posting requirements, added supplier response and follow-up audit time guidelines, added personnel requirements for NDT audits</p> <p>Reference: Critical Supplier Program Conference Report, EB SQ/03-250 dated 12/16/03</p>
B	Major rewrite to incorporate NAVSEA 04P's objectives for the Supplier Audit Program.

1. Purpose

To establish and define the process for the Navy's Supplier Audit Program (SAP) which is designed to ensure consistent oversight of the supplier base that provides critical material to the Navy's shipbuilding, ship repair, and fleet activities and to provide a cost-effective method of sharing supplier audit information between all participants in the program.

2. Applicability

This procedure applies to all Supplier Audit Program participants.

3. Participants

Participation in the Navy's Supplier Audit Program is open to any DOD activity or DOD prime contractor engaged in the acquisition of critical material and/or a contractual requirement to audit critical suppliers. Participants shall share the workload for auditing shared suppliers, share the information regarding the results of supplier audits performed on all of their suppliers and participate in regularly scheduled SAP Working Group meetings. Naval Sea Systems Command is the lead activity responsible for SAP policy and guidance. SAP procurement activity participants include, but are not limited to, General Dynamics Electric Boat, Northrop Grumman Newport News, SUPSHIP, Naval Inventory Control Point, Portsmouth Naval Shipyard, Norfolk Naval Shipyard, Puget Sound Naval Shipyard, Pearl Harbor Naval Shipyard, Naval Sea Logistics Center Detachment Portsmouth, Naval Surface Warfare Center Carderock Division – Philadelphia (NSWCCD-SSES-Philly). Defense Contract Management Agency (DCMA) Navy Special Emphasis Operations Contract Management Office (NSEO CMO) is a participant due to their role as the primary DoD agent for in-plant government oversight and is normally delegated the responsibility for full contract administration and/or quality assurance oversight. DCMA carries out SAP audits at many suppliers as a part of their routine oversight process and performs SAP audits when delegated by the procurement activities. Each activity participating in the SAP will nominate a point of contact that will attend SAP meetings and be the liaison between the activity and the rest of the SAP community.

4. Product Data Reporting and Evaluation Program (PDREP) Database

The Navy's PDREP database shall be used as the single repository for all SAP data, including, the current shared supplier list, audit checklists, audit schedules, audit results, and audit corrective actions. All activities participating in SAP are expected to obtain PDREP user accounts for all necessary employees, involved in data entry and extraction from the PDREP database (SAP Module). A user account request form is available at the NAVSEALOGCEN DET PTSMH WEB page <http://www.nslcptsmh.navsea.navy.mil>. Private contractors must be sponsored by a government point of contact. If an activity is not able to obtain a user account, contact the NAVSEALOGCEN DET PTSMH customer service desk for direction at (603) 431-9460 ext. 486.

5. Supplier Audit Program Working Group

This group normally consists of representatives from each participating activity and additional personnel from the activities as necessary to conduct full and meaningful discussions on proposed agenda topics. The working group is chaired by NAVSEA 04P, who is responsible for proposing agendas, generating meeting minutes, action item lists and distributing this information to the working group. Meetings shall be held on a biannual basis. Sub-committee meetings to address special topics will be held when deemed appropriate by the working group. The first meeting of each calendar year will be used to discuss the list of suppliers audited by this program. The second meeting of each calendar year will be used to discuss, modify, and approve new and existing SAP checklists.

6. Critical Suppliers

A Critical Supplier is a supplier so designated by a procuring activity participating in the Supplier Audit Program based on one or more of the following criteria:

- a) Supplied material criticality (i.e. Submarine Fly-by-wire Flight Critical Components, Level I, SUBSAFE, DSS/SOC, relationship to ship/reactor/crew safety, mission readiness, mission accomplishment capability, etc.) (includes all Critical Safety Items (CSIs))
- b) Supplied material cost or complexity
- c) Supplied material/component attributes that cannot be verified at receipt and if later found to be non-conforming would involve significant rework or scrap.

When critical suppliers are common to more than one SAP procuring activity, the SAP working group shall designate a lead activity (with the consent of the designated lead) and these suppliers will be known as shared critical suppliers. The following considerations shall be used when determining lead activity assignments: volume of work and dollar amount of contracts that each SAP procuring activity has with the supplier, geographic proximity of the SAP participants to the supplier, availability of specialized auditing skills at the SAP participant, and the criticality of the products to each SAP procuring activity's end uses.

By default, for critical suppliers that are not shared, the single buying activity will be considered the lead activity. Maintaining listings of suppliers that are not shared are the responsibility of the individual buying activities.

NAVSEA will maintain the list of shared Navy and private industry critical suppliers. The listing is posted on the PDREP WEB site <http://www.nslcptsmh.navsea.navy.mil/pdrep/pdrep.htm> under the link for Supplier Audit. Each participant will review the list of critical suppliers at least annually for additions/deletions based on changing business conditions.

7. Audit Responsibilities

Each SAP procuring activity shall be responsible for ensuring the performance of applicable audits at all critical suppliers which are unique to that procuring activity and all shared suppliers for which they have been selected as the lead. Each critical supplier shall be audited for all processes applicable to the products being produced. Each applicable audit shall be performed on a regular basis with a periodicity based on factors such as the criticality of the process in producing an acceptable product, the ability to detect defects induced by this process at receipt, the supplier's past performance, and other metrics or leading indicators. The Lead activity for each supplier must ensure that audits 6, 9, 15, 16, 17 and 20 are accomplished every three years, or more often as deemed appropriate. For example, where defective material is received by or made known to the Lead activity, the periodicity for applicable audits may be shortened.

8. Audit Planning and Preparation:

The lead activities shall:

- Determine the supplier to be audited.
- Establish which mandatory audits must be performed.
- Review past SAP audit reports and other quality data for issues related to the supplier and determine if additional SAP audits checklists are needed to address any quality deficiencies.
- Decide whether the audit will be delegated or performed by the lead activity.

For Delegated Audits the lead activity shall:

- Formally (in writing) delegate the specific audits checklist to be accomplished.
 - This must include explicit direction on who is responsible for:
 - Entering audit data in PDREP
 - Following up on audit findings and corrective actions
 - Determining when corrective actions are complete
 - Closing out the corrective actions in PDREP.
- Notify the auditing activity of any specific performance, process, or quality issues that exist at the supplier.

Note: DoD Lead Activities may request the local DCMA representative perform the SAP audit checklist for them. Delegating audits to DCMA must be accomplished by formal Letter of Delegation or Quality Assurance Letter of Instruction.

Note: Private Lead Activities may request that DCMA independently perform a supplier audit through their local SUPSHIP. SUPSHIP will determine when DCMA action is warranted if it is in the Government's best interest and does not replace routine performance of supplier audits by the private activity. SUPSHIP must ensure that the purchase order or contract with the supplier invokes either Government Source Inspection (GSI) or that the supplier has active contracts where the DCMA NSEO CMO is the contract administrator and their purchase order or contract has a government access clause. SUPSHIP must then issue a formal Letter of Delegation requesting the performance of the selected audit. Private shipyards may not delegate the

responsibility for oversight of material control and objective quality evidence (e.g. completion of audits 6 and 15) to DCMA, where material is subject to the requirements of NAVSEA-0948-LP-045-7010, Material Control Standard.

The auditing activity shall:

- Schedule audits as far in advance as practical to ensure the supplier can support the audit and to provide the supplier sufficient time to prepare for the audit. The local DCMA Quality Assurance Representative (QAR) assigned to the facility can facilitate scheduling the audit with the supplier.
- As part of the scheduling process, the local DCMA QAR shall be notified of the proposed audit and their participation in the audit shall be requested. If the auditing activity does not receive a response from the local DCMA representative, they shall contact the Navy Special Emphasis Program (NSEP) Team Leader for the facility. DCMA representatives can be located by contacting the NSEO CMO Product Assurance Group or Team Leaders and or the Mission Assistance Group Leader/Subject Matter Experts. Their contact information can be found at <http://home.dcmamilitary.com/divisions/dcmamilitary/NavalSpecial/contact.htm>. When available, a DCMA representative shall attend the audit and perform alongside the SAP participant's auditors. If a DCMA representative is not available, the auditing activity must ensure that the DCMA QAR is notified that the audit is complete and if there were any significant findings.
- Input pending audits into PDREP.
- Contact the supplier being audited before the audit to communicate any prerequisites needed to support the review (e.g. copies of procedures, personnel availability, etc.).
- When required by the process audit, the audit shall be planned in conjunction with on-going work at the supplier's facility to ensure that in-process material can be inspected and processes can be witnessed.
- Ensure a qualified auditor leads each SAP audit. Auditor qualifications are to be determined by each activity in a written process. Each activity shall maintain a list of qualified auditors. Subject matter experts or similar personnel will be qualified or accompanied by a qualified auditor. The Auditing activity will ensure that audit 3 (Non-destructive testing) is performed by personnel who are at least NDT level II qualified in the applicable disciplines.
- Invite other SAP participants to the audit to make use of special experience, training, or qualifications and to share best practices. (Optional)

9. Audit Performance

Activities performing SAP audits are to plan for and allow enough time for the auditor to thoroughly review the processes and procedures that the supplier has in place. Checklists for each audit shall be used as a baseline for a complete and successful audit, but are not intended to limit the scope and depth of the audit in any way. During the audit, the auditor is expected to record the supplier's procedures that were reviewed, the products inspected, and processes witnessed.

Minor deficiencies corrected during the audit will be noted along with the corrective actions taken. Major/Critical deficiencies will be assigned a serial number in accordance with either the auditing activity's procedures or the supplier's corrective action process so that follow-up actions can be tracked to completion. All non-conforming material found during the audit either by direct observation or by discovery of an unsatisfactory process must be documented. Documentation should include a listing of affected material including in-stock, in-process, or previously delivered material, current material disposition, and identifying material markings in order to facilitate follow-up and material recall efforts when warranted.

During the performance of checklist 9, the auditor shall note any applicable critical processes that are sub-contracted and the name and cage code (if available) of the subcontractors that performs them.

10. Reporting Audit Results and Follow-up actions

All SAP audit results shall be entered into PDREP by the lead activity or as delegated. Where applicable, the DCMA QAR will be notified of the audit completion. Each supplier visit shall be entered under a single PDREP record that includes the audit results for each process checklist, copies of all completed audit checklists and auditor narrative reports. If an activity is not able to enter the information directly, then contact the NAVSEALOGCEN DET PTSMH customer service desk for support at (603) 431-9460 ext. 486. Initial audit results should be posted within seven days after completion of the audit. For delegated audits, the activity performing the audit will notify the lead activity that the audit is complete and if there are any corrective actions needed. The supplier's response, if required, shall be obtained 30 days (maximum) from the audit date. Follow-up actions to confirm completion of corrective actions shall be completed within 90 days of the audit unless otherwise specified by the lead activity, or when delegated. Any audit report that indicates that corrective action is required will remain "Open" ("corrective action complete?" Block will remain no) in the PDREP database until the designated authority at the Supplier Audit Program Lead activity, or when delegated, agrees that the nonconforming process has been corrected. The lead activity is responsible for ensuring that corrective actions are closed in the PDREP database within fifteen days of the corrective action completion (i.e. notification and verification that nonconforming processes have been corrected). For audits that are delegated, the lead activity is required to review audit results, ensure that corrective actions have been completed and are sufficient to prevent reoccurrence. Audits are considered "closed" ("corrective action complete?" Block marked yes or "follow-up required?" Block is marked no) when all corrective actions are complete or the audit is completed with no corrective actions required.

For each supplier visit record, the auditor will apply an overall rating of satisfactory or unsatisfactory.

For each process audited the supplier will be given a rating of Satisfactory or Unsatisfactory. A Satisfactory process is defined as a process that is robust, well defined, repeatable, produces product that is compliant with all contractual and supplier-established requirements and produces the required objective quality evidence to prove compliance to these requirements. Where no current contracts are in place, specification requirements applicable to the supplier's product lines shall be substituted for contractual requirements. The process may

still be considered satisfactory even if a non-conformance found as long as it is corrected on the spot and additional corrective / preventative action is not required, i.e. nonconformance is not significant or systemic and has not produced nonconforming material. Also, the process may be considered satisfactory where operational improvement is needed. Processes that produce non-conforming material are automatically considered unsatisfactory. Corrective actions must be taken to ensure all material conforms to invoked requirements. Material that is produced or inspected by personnel that do not have required certifications (i.e. NDT and welding) is considered non-conforming.

In the event that an audit is performed and significant deficiencies have been identified that have or could have an effect on products already in service, or going into service, the auditor or SAP lead at the activity will issue an **Alert** via PDREP. Alerts will also be issued when audits are refused or when a supplier refuses to respond to audit findings. The alert and the corresponding audit findings will be sent to the designated SAP point of contact for each activity for information and to NAVSEA 04P for review to determine the severity of deficiency and if any additional action is warranted. If the Alert notice is valid and warrants issuance of a formal Alert such as a Navy Bulletin or Government Industry Data Exchange Program (GIDEP) Alert, NAVSEA 04P will forward the SAP Alert along with the proposed action to the SAP Participants for their information and recommended actions. Each SAP participating activity will review the alert for applicability to product that they may have under contract or have received delivery. If the alert is applicable to the participant's products, appropriate actions must be taken to mitigate the deficiencies such as stopping production on ongoing contracts, setting up screening points at receipt, additional in-plant oversight, and/or removing defective material from service or stores. These actions will continue until permanent corrective action has been put in place by the supplier and verified to be effective.

Supplier processes that are rated Unsatisfactory shall be evaluated for reaudit by the lead activity. In addition, based on the unsatisfactory results the lead audit activity must evaluate whether or not the supplier is weak in any other areas and determine if additional processes audits are necessary.

Processes that are found to be performed by a subcontractor shall be considered by the lead activity for an audit. This should be a risk based evaluation using the criticality of the process to the end product, level of oversight provided by the first tier supplier, and ability to verify the process at final inspection. Each year a list of subcontractors used by all SAP first tier suppliers will be generated. This list will be reviewed by the SAP participants to determine candidates for continuing audits of individual subcontractors. These subcontractors will be chosen based on criticality of the subcontracted process, prime and subtier past performance, and commonality between the first tier supplier base.

11. Report Retrieval

SAP audits are included as part of each supplier's PDREP profile. They are also available for retrieval as individual Audit records from PDREP. SAP audits will not be used directly as an evaluation criteria in the Navy's Red/Yellow/Green risk assessment program. However, if a SAP alert is used to generate a Navy Bulletin or a GIDEP Alert this data will be used as an evaluation criteria for Red/Yellow/Green. The intent is to encourage the supplier to improve their processes voluntarily rather than use the audits as another rating scale to be used in

comparison with other suppliers. However, the SAP data in PDREP should be used as another tool when making buying decisions. The data can be helpful in determining whether or not a supplier has capable processes that are critical to the successful production of a particular component or part and the data will be used to plan future audits where systemic weaknesses appear in a particular supplier or across the entire supplier base.

12. Retention of SAP information

Supplier audits will remain accessible as active records from the PDREP database for a minimum of nine years from audit closure.

13. List of Process Audits

1. Metallurgical/Chemical Laboratory Testing
2. Hydrostatic Testing
3. Non-destructive testing
4. Calibration
5. Inspection and Testing
6. Material Control (Including Level 1/Subsafe)
7. Document and Data Control-
8. Painting and Surface Preparation
9. Control of Suppliers/Subcontractors Flowdown of Customer Requirements
10. First Article, Factory acceptance and Individual Acceptance testing
11. Receiving Inspection
12. Non-conforming Material Control
13. Component/System Cleanliness
14. Torque
15. Supplier Control of Objective Quality Evidence and Material traceability
16. Packaging and Preservation
17. Final/Ship Out Inspection
18. Electrical Testing
19. Flame Spray
20. Customer Contract/Purchase Order Review
21. Internal Quality Audits
22. Welding
23. Heat Treat
24. Plating
25. Soldering Controls
26. Fastener Test Methods ASTM F 606
27. Teflon Coating (Repair of Ball Valves)
28. Braze/Brazing Process
29. Foundry Operations

Process audit checklists shall be reviewed and revised, if necessary, on a three year period by the SAP participants. New checklists shall be proposed and developed as needed to provide coverage of special processes. Revised and new checklists shall be concurred on by the SAP participants and approved by NAVSEA 04P.

14. Definitions

SAP Participant: A DOD activity or DOD prime contractor that has implemented procedures to carry out SAP audits

Critical Supplier: A supplier that is considered critical by any single SAP participant due to the criticality of the end use of their products, the cost or complexity of their products or the inability to verify significant attributes at receipt of their products.

Lead activity: The lead activity is the single organization selected by the SAP group as best suited to ensure audits are performed at a supplier and that corrective actions are fully implemented and effective. This selection will be based on contract volume, relevant expertise, geographical proximity, and criticality of the end use.

Deficiencies: Non-conformances with documented contract or supplier quality system requirements. Also, significant departures from “good shop practice” where failure could cause defective material to be produced.

Audit Completion Date: The calendar date where on site auditing has been completed.

Audit Closure Date: The calendar date where all deficiencies noted and corrective actions required by the audit have been successfully resolved or the audit completion date where no corrective action was required by the audit.

Supplier Visit: A single planned onsite review of one or more supplier’s special processes using one or more checklists. A supplier visit may last more than one consecutive day.

Operational Improvement: Constructive criticism of a supplier’s process or practice that should be improved to ensure compliance with requirements, but where all requirements are observed to be minimally achieved. Examples include where documented processes are not clear or where all process steps are not fully documented, however, employee training, experience, or other mitigating factors allow the invoked requirements to be met.

Noncompliance: A finding where the supplier’s processes and procedures or product fail to meet the invoked contractual requirements.