DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
1333 ISAAC HULL AVENUE SE
WASHINGTON NAVY YARD DC 20376-0001

IN REPLY REFER TO

NAVSEAINST 4855.38
SEA 04/106
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NAVSEA INSTRUCTION 4855.38

From: Commander, Naval Sea Systems Command

Subj: SUPPLIER AUDIT PROGRAM

Ref: (a) Federal Acquisition Regulation Part 42, Contract
            Administration and Audit Services
        (b) SECNAV Manual M-5000.2, Navy Acquisition and
            Capabilities Guidebook
        (c) SECNAVINST 4855.3B
        (d) NAVSEAINST 5400.106
        (e) NAVSEA 0989-062-4000, Nuclear Quality Assurance
            Manual for Shipyards and the Naval Reactors Facility

1. __Purpose__. To establish and define the Navy's Supplier Audit
Program (SAP) which is designed to provide a standardized
approach to oversight of the critical material supplier base for
the Navy's shipbuilding, ship repair and fleet activities as
prescribed is references (a) through (d). By teaming, the
program participants provide an efficient and effective method
of sharing the responsibility for supplier oversight and audit
information.

2. __Mission Statement__. The mission of the Supplier Audit
Program (SAP) is to share responsibility for oversight of the
supplier base that provides critical material to the Navy's
Shipbuilding, Maintenance and Fleet Activities. The result of
this program provides a barometer of the health of the Navy's
critical supplier base. The SAP also provides a cost-effective
method of sharing supplier audit information between all
stakeholders in the program.

3. __Scope and Applicability__. This instruction applies to all
Supplier Audit Program participants. This instruction does not
apply to Naval nuclear material which is controlled by the
requirements of reference (e).

4. __Participants__. Participation in the Navy's Supplier Audit
Program is open to any DoD activity or DoD prime contractor that
is engaged in the acquisition of critical material and/or that
has a contractual requirement to audit critical suppliers for

the Navy's shipbuilding, ship repair and fleet activities per
references (a) and (b). 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. 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 SAP community members.

　　　a.　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 (GD EBC), Huntington Ingalls Industries
Newport News Shipbuilding (HII NN), Naval Supply Systems Command
Weapon System Support (NAVSUP WSS), Portsmouth Naval Shipyard
(PNSY), Norfolk Naval Shipyard (NNSY), Puget Sound Naval
Shipyard and Intermediate Maintenance Facility (PSNS & IMF),
Pearl Harbor Naval Shipyard and Intermediate Maintenance
Facility (PHSY & IMF), Naval Sea Logistics Center (NSLC)
Detachment Portsmouth, Naval Surface Warfare Center Carderock
Division – Philadelphia (NSWCCD-SSES-Philly).

　　　b.　The Supervisors of Shipbuilding (SUPSHIP) community is
a participant in the SAP due to their oversight of certain
procurement activities.　The SUPSHIP role within the program is
to attend regular SAP meetings and participate in the review
and/or revision of Process Audit Checklists and SAP procedures.
SUPSHIPs will also issue Letters of Delegation (LOD) to Defense
Contract Management Agency (DCMA) to conduct SAP audits when
requested and deemed appropriate.

　　　c.　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 process reviews (SAP/Manufacturing Process Review
(MPR)/Quality Process Reviews (QPR)) at many suppliers as a part
of their routine oversight process and performs applicable
process reviews when delegated by the procurement activities.

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

　　　a.　The Navy's PDREP database as established in reference
(c), 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.

　　　b.　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 https://www.pdrep.csd.disa.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 (207) 438-1690.

6. <u>Supplier Audit Program Working Group</u>. This group 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 04, who is responsible for
facilitating communication among participants, proposing
agendas, generating meeting minutes, action item lists and
distributing this information to the working group. Meetings
should be held on a biannual basis. Sub-committee meetings to
address special topics may be held when deemed appropriate by
the working group chair.

7. <u>Critical and Shared Suppliers</u>

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

        (1) 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, and any desginated Critical
Safety Items (CSIs)

        (2) Material cost or complexity

        (3) Material or component attributes that cannot be
verified at receipt inspection and if later found to be non-
conforming would involve significant rework or scrap

    b. Shared Suppliers: A Shared Supplier is defined as being
common to more than one SAP procuring activity. The SAP working
group shall designate a lead activity for each Shared Supplier
to execute SAP responsibilities (with the consent of the
designated lead). 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.

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

d. NAVSEA 04 will maintain the list of shared Navy and
private industry critical suppliers. The listing is posted on
the PDREP WEB site https://www.pdrep.csd.disa.mil under the link
for Reporting Tools (choose the Supplier Audit Program (SAP)
link). Each participant will review the list of critical
suppliers at least annually for additions and deletions based on
changing business conditions. The Shared Supplier List will be
updated annually subsequent to revision by SAP participants.

8. Audit Responsibilities.
    a. 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.
    b. 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 inspection,
the supplier's past performance, and other metrics or leading
indicators.
    c. As a minimum, the Lead activity, or sole procuring
activity, for each supplier must ensure that process audits 6,
9, 15, 16, 17 and 20,(see PDREP Process Audit Report Checklists)
or the equivalent, 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.

9. Audit Planning and Preparation

    a. The Lead activities shall:

        (1) Schedule the supplier to be audited.

        (2) Establish which mandatory audits must be performed.

(3) Review past process audit checklists and other quality data for issues related to the supplier and determine if additional process audits checklists are needed to address any quality deficiencies.

(4) Decide whether the audit will be delegated or performed by the lead activity.

b. For Delegated Audits the lead activity shall:

(1) Formally (in writing) delegate the specific process audit checklists to be accomplished. This must include explicit direction on who is responsible for:

(a) Entering audit data in PDREP

(b) Following up on audit findings and corrective actions

(c) Determining when corrective actions are complete

(d) Closing out the corrective actions in PDREP

(2) Notify the auditing activity of any specific performance, process, or quality issues that exist at the supplier.

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

Note: Private Lead Activities may request that DCMA independently perform a supplier audit through their local Supervisor of Shipbuilding (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 LOD requesting the performance of the selected process audit checklists. Private shipyards may not delegate the responsibility for oversight of material control and objective

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

       (c) The auditing activity shall:

          1. 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.

          2. 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 or the Mission Assistance Group Leader/Subject Matter Experts. Their contact information can be found at http://www.dcma.mil/cmo/Naval_Special_Emphasis_Ops/contact.cfm.

          3. 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.

          4. Prior to the audit, coordinate with the supplier to communicate any prerequisites needed to support the review (e.g. copies of procedures, personnel availability, etc.).

          5. 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.

          6. 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 audits for Non-destructive testing processes are performed by personnel who are at least NDT level II qualified in the applicable disciplines.

<u>7</u>. Invite other SAP participants to the audit to make use of special experience, training, or qualifications and to share best practices. (Optional)

10. <u>Audit Performance</u>

a. 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. Process audit 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.

b. 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.

c. During the performance of process audit checklist 9, Control of Suppliers/Subcontractors Flowdown of Customer Requirements, 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.

11. <u>Reporting Audit Results and Follow-up actions</u>

a. All SAP process 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 audit checklist, copies of all completed audit checklists and auditor narrative

reports. If an activity is not able to enter the information directly, contact the NAVSEALOGCEN DET PTSMH customer service desk for support at (207) 438-1690.

b. 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 at the delegated activity. 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 at the delegated activity, agrees that the nonconforming process has been corrected.

c. 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.

d. 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.

e. 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.

f. 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 is 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.

    g. 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 04 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 04 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. 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.

    h. Supplier processes that are rated Unsatisfactory shall be evaluated for re-audit 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.

    i. 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.

12. 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 criterion in the Navy's Past
Performance Information Retrieval System (PPIRS) 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 evaluation
criteria for PPIRS. 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 may be used as an
additional 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.

13. 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.

14. List of Process Audits. Supplier Audit Program (SAP)
process audit checklists can be found at the following link:
https://www.pdrep.csd.disa.mil/pdrep_files/report_tools/Supplier
/process.htm.

15. Definitions

    a. 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.

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

c. Critical Supplier: A supplier designated by a SAP participant based on the following criteria: material criticality, material cost or complexity of material, or component attributed that cannot be verified at receipt inspection (see 7.a.).

d. 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.

e. 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.

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

g. 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.

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

i. 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.

M. R. WHITNEY
Deputy Commander, Logistics,
Maintenance & Operations

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