Report No. DODIG-2014-075

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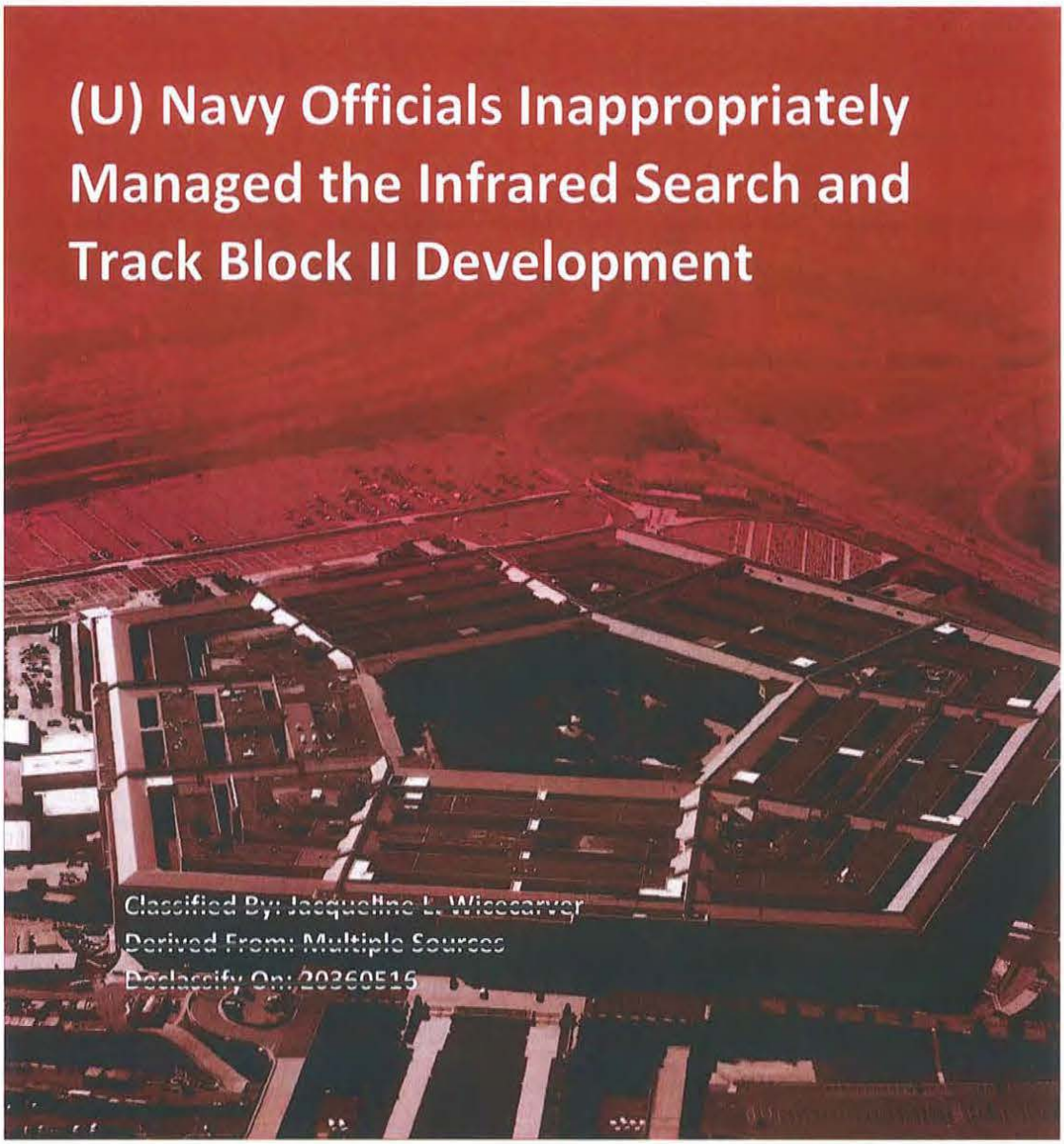
INSPECTOR GENERAL

U.S. Department of Defense

May 16, 2014

(U) Navy Officials Inappropriately Managed the Infrared Search and Track Block II Development



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(U) Results in Brief

(U) Navy Officials Inappropriately Managed the Infrared Search and Track Block II Development

May 16, 2014

(U) What We Did

(U) We determined whether the Naval Air Systems Command was effectively managing and developing the F/A-18E/F Infrared Search and Track (IRST) program for low-rate initial production (initial production).

(U) What We Found

~~(FOUO)~~ Program Manager Air (PMA)-265 officials did not effectively manage and develop the IRST program while preparing for initial production. Specifically, PMA-265 officials, with approval from the Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN[RD&A]), inappropriately requested and planned to use NAVY/NAVAIR (b)(5) in procurement funds to develop Block II capabilities.

(U) This occurred because PMA-265 officials stated the upgrades from Block I to Block II did not represent a significant increase in IRST capabilities. However, the planned upgrades to Block I required engineering efforts, plus developmental, operational, and live fire testing. Therefore, PMA-265 officials should have requested Research, Development, Test and Evaluation (RDT&E) funds.

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(U) As a result, PMA-265 officials would violate section 1301, title 31, United States Code, the Purpose Statute, causing a potential Antideficiency Act violation if they obligate procurement funds to develop Block II in May 2014.

(U) In addition, costs for RDT&E efforts for Block I plus Block II would surpass the Acquisition Category I (ACAT I) funding threshold of $NAVY/NAVAIR (b)(5) in FY 2014 dollars when re-designating Block II development costs as RDT&E. However, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) provided no acquisition oversight of the IRST program because PMA-265 officials did not inform the USD(AT&L) of the appropriate RDT&E funding total. Furthermore, USD(AT&L) did not have timely access to accurate, authoritative, and reliable information supporting acquisition oversight, accountability, and decision making for effective and efficient delivery of warfighter capabilities. Congress was also not appropriately notified of this major weapon system development.

(U) What We Recommend

~~(FOUO)~~ We recommend the ASN(RD&A) reprogram the Block II development costs of $NAVY/NAVAIR (b)(5) to RDT&E funds and notify the USD(AT&L) that RDT&E costs for Block I and Block II exceeded the Acquisition Category I threshold. We also recommend the USD(AT&L) designate the IRST program as an ACAT I program.

(U) Management Comments and Our Response

~~(FOUO)~~ The ASN(RD&A) partially addressed our recommendation to reprogram Block II development costs. The ASN(RD&A) stated Block II development is currently unfunded and all future funding will be requested as RDT&E. However, the ASN(RD&A) response is insufficient. The ASN(RDA) should specifically address the $NAVY/NAVAIR (b)(5) in procurement funds for Block II development.

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(U) Results in Brief

(U) Navy Officials Inappropriately Managed the Infrared Search and Track Block II Development

(U) The ASN(RD&A) did not address the specifics of the recommendation to re-designate the F/A-18E/F IRST to an ACAT I program. The ASN(RD&A) agreed that acquisition programs with estimated RDT&E funding of more than $[redacted] should be designated as ACAT I programs. However, the ASN(RD&A) response is insufficient. Block II remains a requirement, and development estimates for Block I and II exceed the ACAT I designation. Regardless of the funding, the cost estimate for the Block II requirement necessitates re-designation of the F/A-18E/F IRST to an ACAT I program. Therefore, we request additional comments.

(U) The USD(AT&L) did not provide comments to the draft report.

(U) We request the ASN(RD&A) and the USD(AT&L) provide comments in response to this report. Please see the Recommendations Table on the back of this page.

(U) Recommendations Table

(U) Management	Recommendations Requiring Comment	No additional Comments Required
Assistant Secretary of the Navy (Research, Development, and Acquisition)	1.a. and 1.b.	
Under Secretary of Defense for Acquisition, Technology, and Logistics	2	(U)

(U) Please provide comments by June 16, 2014.

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

May 16, 2014

(U) MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR
ACQUISITION, TECHNOLOGY, AND LOGISTICS
ASSISTANT SECRETARY OF THE NAVY FOR
RESEARCH, DEVELOPMENT, AND ACQUISITION

(U) SUBJECT: Navy Officials Inappropriately Managed the Infrared Search and Track Block II Development (Report No. DODIG-2014-075)

~~(FOUO)~~ We are providing this report for review and comment. This report discusses the need to properly manage and fund the development of the F/A-18E/F Infrared Search and Track Block II capability. Program officials, with approval from the Navy Milestone Decision Authority, inappropriately requested and planned to use $[redacted] in procurement funds to develop the Block II capability, potentially violating section 1301, title 31, United States Code, the Purpose Statute, causing a potential Antideficiency Act violation.

(U) We considered comments on the draft report when preparing the final report. DoD Directive 7650.3 requires that recommendations be resolved promptly. Comments from the Assistant Secretary of the Navy (Research, Development, and Acquisition) only partially addressed the recommendations. Therefore, we request additional comments from the Assistant Secretary of the Navy (Research, Development, and Acquisition) on Recommendations 1.a and 1.b by June 16, 2014.

(U) The Under Secretary of Defense for Acquisition, Technology, and Logistics did not provide comments. Please provide comments that state whether you agree or disagree with the finding and Recommendation 2 by June 16, 2014. If you agree with our recommendation, describe what actions you have taken or plan to take to accomplish the recommendation and include the completion dates of your actions. If you disagree with the recommendation or any part of it, please give specific reasons why you disagree and propose alternative action if that is appropriate.

(U) 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).

(U) We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-[redacted] (DSN 664-[redacted]). If you desire, we will provide a formal briefing on the results.

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

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(U) Contents


INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

(U) Introduction

(U) Objective

(U) Our objective was to evaluate the Naval Air Systems Command acquisition management of the F/A-18E/F Infrared Search and Track (IRST) program. Specifically, we determined whether Naval Air Systems Command was effectively managing and developing the F/A-18E/F IRST for low-rate initial production (initial production). See Appendix A for the scope and methodology and prior coverage related to the objective.

(U) Background

(U) The IRST system is an infrared sensor designed to search, detect, and track airborne targets. The IRST allows the pilot to track and target enemy aircraft in an environment not covered by radars. The warfighter will fly the F/A-18E/F aircraft with the IRST to:

- search the sky for potential threat aircraft;
- detect and track all aircraft within a specific range of sky; and
- target and launch air-to-air missiles at a confirmed threat aircraft.

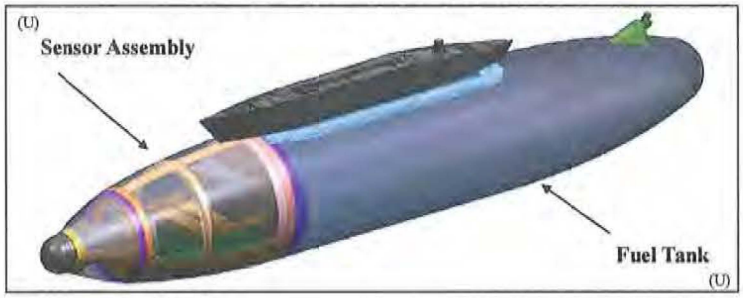
(U) Figure 1 shows an operational view for the IRST.

(U) Figure 1. IRST Operational View

(U) Source: PMA-265

(U) The IRST system has two major components, the sensor assembly and the fuel tank. The sensor assembly consists of an infrared receiver, a data processor, the sensor structure, and other components. The IRST sensing and processing components are integrated onto the front end of a fuel tank. Figure 2 shows the IRST system configuration.

(U) Figure 2. IRST System



(U) Source: PMA-265

(U) IRST Oversight and Program Description

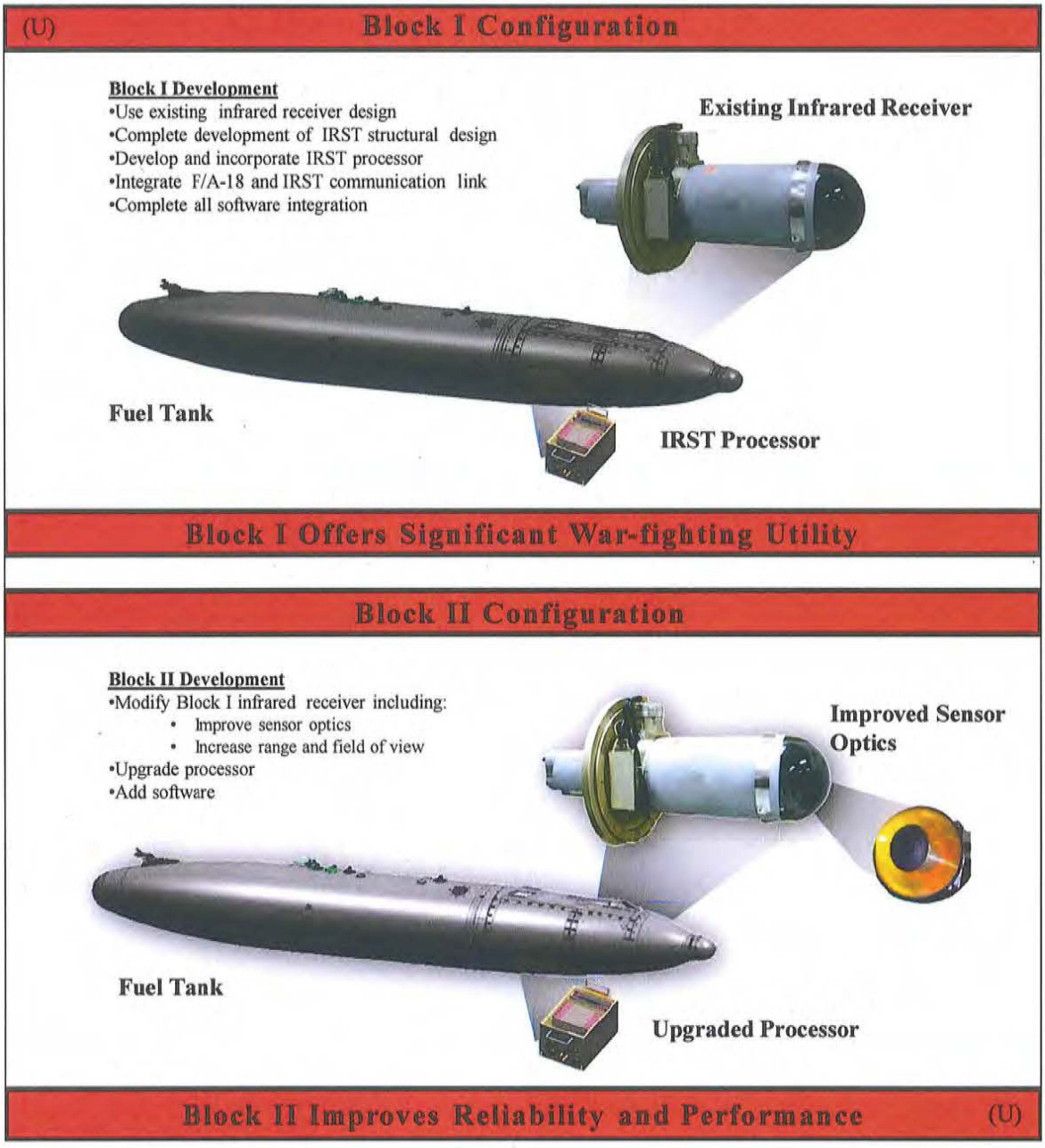
(U) The IRST program began in November 2007 as a non-major Acquisition Category (ACAT) III program to become operational in FY 2013. In July 2010, the IRST became a major ACAT II program because of an updated cost estimate as a result of fluctuation in funding levels, quantity, and schedule changes. The Program Manager Air for the F/A-18 (PMA-265) in the Program Executive Office, Tactical Aircraft at Naval Air Systems Command, Patuxent River, Maryland, manages the IRST program.

(U) Interim DoD Instruction (DoDI) 5000.02, "Operation of the Defense Acquisition System," November 26, 2013[1] establishes ACAT-level designation to determine the level of Milestone Decision Authority (MDA) review and statutory and regulatory requirements. The MDA for the IRST is the Principal Military Deputy, Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN[RD&A]). The ASN(RD&A) has overall responsibility for the IRST and must approve the milestones for the IRST to enter into the next phase of the acquisition process. Additionally, the ASN(RD&A) is accountable for cost, schedule, and performance reporting to higher authorities, including Congress.

[1] (U) During the audit, the Deputy Secretary of Defense canceled DoDI 5000.02, "Operation of the Defense Acquisition System," December 8, 2008, and replaced it with Interim DoDI 5000.02, November 26, 2013.

(U) In FY 2010, Congress reduced IRST funding by $[redacted] PMA-265 officials stated the congressional funding reduction delayed the IRST development. In April 2011, PMA-265 officials changed the acquisition strategy to develop the IRST in two blocks to incrementally provide IRST capability to the warfighter over time until attaining full desired capability. Each block has specific performance goals, configuration, and management activities. Block I will develop and integrate the IRST system on the F/A-18E/F using technology from an existing infrared receiver. PMA-265 officials planned for the Block I IRST to become operational in FY 2016. Block II will modify the Block I IRST by upgrading the receiver and processor and incorporating improved sensor optics to achieve required performance capabilities. PMA-265 officials planned for the Block II IRST to become operational in FY 2018. See Figure 3 for the developmental differences between Block I and Block II IRST configurations.

(U) Figure 3. IRST Block I and II Configurations



(U) Source: PMA-265

~~(FOUO)~~ The ASN(RD&A) approved the IRST program to begin the Engineering and Manufacturing Development phase of the acquisition process for Block I in July 2011. PMA-265 officials are planning for a Block I initial production decision in May 2014 and to initiate Block II development after Block I initial production begins. PMA-265 officials estimated the IRST program will cost approximately $[redacted] over the life of the program. PMA-265 officials planned to produce 53 Block I IRSTs and 117 Block II IRSTs. They planned to retrofit the 53 Block I IRST fielded systems with Block II capabilities using procurement funds at an estimated cost of $[redacted]

(U) Defense Acquisition and Financial Management Guidelines

(U) DoD Directive 5000.01, "The Defense Acquisition System," November 20, 2007, along with DoDI 5000.02, provides management principles and mandatory policies and procedures for managing all acquisition programs. The Defense Acquisition System is the management process DoD uses to provide effective, affordable, and timely systems to the users.

(U) DoDI 5000.02, November 26, 2013, categorized ACAT I programs as those with estimated Research, Development, Test and Evaluation (RDT&E) funds of more than $[redacted] in FY 2014 dollars or procurement funds of more than $2.79 billion in FY 2014 dollars. For ACAT I programs, the MDA is the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]), the head of the DoD Component, or a USD(AT&L)-delegated Component acquisition executive. ACAT II programs require estimated RDT&E funds of more than $185 million in FY 2014 dollars or procurement funds of more than $835 million in FY 2014 dollars. For ACAT II programs, the MDA is the Component acquisition executive or the individual designated by the Component acquisition executive.

(U) DoDI 5000.02, November 26, 2013, categorized ACAT I programs as those with estimated Research, Development, Test and Evaluation (RDT&E) funds of more than $[redacted] in FY 2014 dollars or procurement funds of more than $2.79 billion in FY 2014 dollars.

(U) DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), "Introduction," directs statutory and regulatory financial management requirements, systems, and functions for all appropriated and non-appropriated, working capital, revolving, and trust fund activities. DoD FMR, volume 2A, chapter 1, section 010213, "Research, Development, Test and Evaluation (RDT&E) – Definitions and Criteria," paragraph B.1, "RDT&E Appropriations," states that RDT&E appropriations finance

(U) RDT&E efforts performed by contractors and Government installations, including developmental and operational tests. DoD FMR, volume 2A, chapter 1, section 010202, "Full Funding of Procurement Programs," paragraph A, "General," states that procurement appropriations finance investment items such as a weapon or a piece of military equipment. DoD FMR, volume 2A, chapter 1, section 010201, "Criteria for Determining Expense and Investment Costs," paragraph D.2, "Investments," states that procurement appropriations also finance the cost of fabricating and installing additions or modifications to existing end items, with certain limited exceptions.

(U) Review of Internal Controls

(U) DoDI 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 internal control weaknesses in the management of the IRST program. Specifically, PMA-265 officials, with approval from the ASN(RD&A), inappropriately requested procurement funding to finance the development of the Block II capabilities. We will provide a copy of the final report to the senior official responsible for internal controls in the Department of the Navy.

(U)Finding

(U) Program Officials Requested Inappropriate Funding for Block II Development

~~(FOUO)~~ PMA-265 officials did not effectively manage and develop the IRST program while preparing for initial production. Specifically, PMA-265 officials, with approval from the ASN(RD&A), inappropriately requested and planned to use procurement funds to develop Block II capabilities starting in May 2014. This occurred because PMA-265 officials stated the upgrades from Block I to Block II did not represent a significant increase in IRST capabilities. However, the planned upgrades to Block I required engineering efforts, plus developmental, operational, and live fire testing at an estimated additional cost of $[redacted] Therefore, PMA-265 officials should have requested RDT&E funds. As a result, PMA-265 officials would violate section 1301, title 31, United States Code (31 U.S.C. § 1301), the Purpose Statute, causing a potential Antideficiency Act violation if they obligate procurement funds to develop Block II in May 2014. In addition, costs for RDT&E efforts for Block I plus Block II would surpass the ACAT I funding threshold of $[redacted][2] in FY 2014 dollars when re-designating Block II development costs as RDT&E. However, USD(AT&L) provided no acquisition oversight of the IRST program because PMA-265 officials did not inform the USD(AT&L) of the appropriate RDT&E funding total. Furthermore, USD(AT&L) did not have timely access to accurate, authoritative, and reliable information supporting acquisition oversight, accountability, and decision making for effective and efficient delivery of warfighter capabilities. Congress was also not appropriately notified of this major weapon system development.

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[2] ~~(FOUO)~~ The prior DoDI 5000.02, December 8, 2008, categorized ACAT I programs as those with estimated RDT&E funds of more than $365 million in FY 2000 dollars. The total RDT&E efforts for Block I plus Block II also surpassed that threshold with $[redacted] in FY 2000 dollars.

(U) Program Officials Requested Procurement Funds For Block II Development and Testing

~~(FOUO)~~ PMA-265 officials, with approval from the ASN(RD&A), inappropriately requested and planned to use procurement funds to develop Block II capabilities between FY 2014 and FY 2018. However, PMA-265 officials planned upgrades to the Block I infrared receiver that required engineering efforts, plus developmental, operational, and live fire testing to meet the Block II capability requirements. DoD FMR, volume 2A, chapter 1, section 010213, "Research, Development, Test and Evaluation (RDT&E) – Definitions and Criteria," paragraph C.7, "Product Improvement," states that product improvements of major end items or major components of major end items that require engineering design, integration, test, or evaluation effort should be procured with RDT&E funds. Furthermore, 31 U.S.C. § 1301, the Purpose Statute, states appropriations must be applied only for the purpose the appropriations were intended except as otherwise provided by law.

~~(FOUO)~~ In September 2011, PMA-265 officials requested $[redacted] in procurement funds for development costs to attain Block II capabilities in the program objective memorandum for FY 2014. PMA-265 officials stated that in February 2012 they received full funding for Block II. PMA-265 officials will not begin Block II or obligate the money until May 2014. The table provides a summary of the cost estimates, work required, and funds requested for each block from the September 2011 program objective memorandum for FY 2014.

~~(FOUO)~~ Table. Block I and II Development Cost Estimates and Funds Requested

~~(FOUO)~~ Increment	Cost Estimate (Millions)	Work Required	Funds Requested by PMA-265 Officials
Block I	$[redacted]*	Develop, integrate, and test IRST components to meet Block I capability requirements	RDT&E
Block II	$[redacted]	Upgrade Block I infrared receiver that will require engineering efforts, plus developmental, operational, and live fire testing to meet Block II capability requirements	Procurement ~~(FOUO)~~

(U) Source: PMA-265

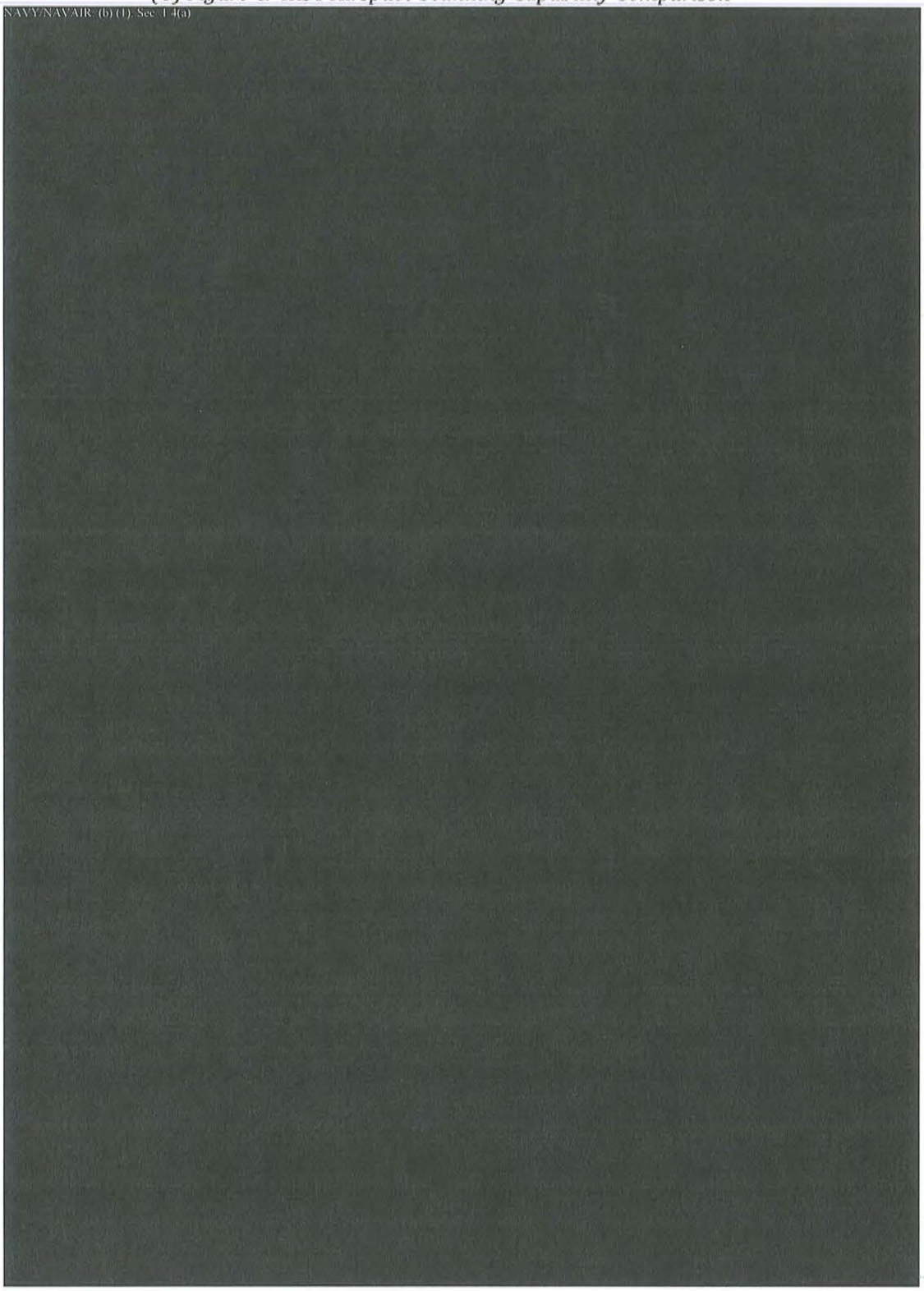
~~(FOUO)~~ *After September 2011, Block I RDT&E funding increased from $[redacted] to account for schedule acceleration, risk reduction, and additional contracting.

~~(FOUO)~~ PMA-265 officials planned upgrades to the Block I infrared receiver that required engineering efforts, plus developmental, operational, and live fire testing to meet the Block II capability requirements. Therefore, they should have requested $[redacted] in RDT&E funds for the upgrades of the IRST from Block I to Block II as required by the DoD FMR volume 2A, chapter 1, section 010217, paragraph C.7 and 31 U.S.C. § 1301.

(U) Block II Capability Increase

~~(FOUO)~~ PMA-265 officials stated the upgrades from Block I to Block II did not represent a significant increase in the IRST capabilities. The IRST scans a specific range of airspace to detect and track potential threat aircraft. Block II will significantly increase the Block I capability, allowing the pilot to detect and track threat aircraft in a larger area and launch missiles at a confirmed threat aircraft sooner. The Block II will increase the IRST airspace scanning capability by over [redacted] according to our calculations using PMA-265 officials' data. [redacted]

(U) Figure 4. IRST Airspace Scanning Capability Comparison



~~(FOUO)~~ PMA-265 officials determined procurement funds were appropriate because they considered the Block I infrared receiver a non-developmental item (NDI). However, they planned to further develop the Block I infrared receiver through engineering efforts from FY 2014 to FY 2018 to achieve Block II capability requirements. PMA-265 officials stated that because engineering for Block II was associated with a modification to enhance capability, it was acceptable to use procurement funds. However, the DoD FMR states that a modification does not automatically warrant the use of procurement funds. DoD FMR, volume 2A, chapter 1, section 010209, states that NDIs are items purchased directly from a commercial source without alteration or modification and that procurement funds may be used. If the NDI requires design and development, or operational or live fire testing, then the entire effort is not an NDI, and funding for that effort should be budgeted in RDT&E funds.

~~(FOUO)~~ PMA-265 officials determined procurement funds were appropriate because they considered the Block I infrared receiver a non-developmental item (NDI). However, they planned to further develop the Block I infrared receiver through engineering efforts from FY 2014 to FY 2018 to achieve Block II capability requirements.

~~(FOUO)~~ PMA-265 officials estimated $[redacted] for engineering to modify the Block I infrared receiver, replace the data processor, assemble all IRST sensor components, and verify the IRST meets all technical requirements before testing. PMA-265 officials estimated $[redacted] for Block II Government or contractor testing to:

- verify that the Block II met all performance requirements,
- determine the effectiveness and suitability of the Block II in realistic conditions, and
- determine the Block II survivability and lethality.

~~(FOUO)~~ PMA-265 officials estimated Block II would increase IRST development costs by $[redacted] according to the program objective memorandum for FY 2014.

(U) The planned Block II development exceeds the definition of an NDI as defined in the DoD FMR and represents a significant increase in the IRST operational capabilities. DoD FMR, volume 2A, chapter 1, section 010213, paragraph C.7, also states that technology changes that significantly enhance the performance capability,

(U) including related development and test and evaluation efforts, should be financed in RDT&E funds.

(~~FOUO~~) Therefore, PMA-265 officials would misuse $[redacted] if they continue to develop Block II in May 2014 with procurement funds. Procurement funds are not appropriate for development of the IRST Block II capabilities. According to 31 U.S.C. § 1301, appropriations must be applied only for the purpose the appropriations were intended except as otherwise provided by law. ASN(RD&A) should reprogram the development costs of $[redacted] to RDT&E funds before PMA-265 officials execute the Block II development to avoid violating 31 U.S.C. § 1301, the Purpose Statute, causing a potential Antideficiency Act violation.

(U) Program Should be Designated an Acquisition Category I

(~~FOUO~~) Costs for RDT&E efforts for Block I plus Block II would surpass the ACAT I funding threshold of $[redacted] in FY 2014 dollars when re-designating Block II development costs as RDT&E. However, PMA-265 officials, through ASN(RD&A), did not inform the USD(AT&L) of the appropriate RDT&E funding total as required by DoDI 5000.02. RDT&E funds for Block I and II would have totaled about $[redacted] in FY 2014 dollars if PMA-265 officials had appropriately requested the $[redacted] as RDT&E funds in September 2011. The ASN(RD&A) did not inform the USD(AT&L) of the need to re-designate the IRST as an ACAT I program when the February 2012 President's Budget Submission for FY 2013 provided full funding approval. DoDI 5000.02 states the DoD Component must notify the USD(AT&L) when an increase in program cost or a change in acquisition strategy results in reclassifying a lower ACAT program to an ACAT I program. The DoD Component must report ACAT-level changes as soon as it anticipates the program is within 10 percent of the next ACAT level. Once the USD(AT&L) designates a program as an ACAT I, the DoD Component must reclassify and manage the program accordingly.

(~~FOUO~~) RDT&E funds for Block I and II would have totaled about $[redacted] in FY 2014 dollars if PMA-265 officials had appropriately requested the $[redacted] as RDT&E funds in September 2011.

(U) PMA-265 officials were not required to follow the Defense Acquisition Executive Summary process to identify and address potential and actual program concerns to the USD(AT&L) because the IRST program was managed as an ACAT II. If PMA-265 officials properly managed the IRST as an ACAT I program, PMA-265 officials would be required to communicate program concerns with the USD(AT&L). In addition, the USD(AT&L) would submit quarterly and annual selected acquisition reports to Congress. A selected acquisition report provides Congress with the status of total program cost, schedule, and performance, as well as a full life-cycle cost analysis. Without this acquisition visibility, the USD(AT&L) did not have timely access to accurate, authoritative, and reliable information supporting acquisition oversight, accountability, and decision making for effective and efficient delivery of warfighter capabilities. Additionally, Congress was not appropriately notified of this major weapon system development. The ASN(RD&A) should notify the USD(AT&L) that RDT&E costs for the IRST Block I and II will exceed the ACAT I threshold, and request that USD(AT&L) re-designate the F/A-18E/F IRST program to an ACAT I program. The USD(AT&L) should then designate the F/A-18E/F IRST program as an ACAT I program.

(U) Conclusion

(~~FOUO~~) PMA-265 officials did not effectively manage and develop the IRST program while preparing for the May 2014 initial production decision. PMA-265 officials are at risk of violating 31 U.S.C. § 1301, the Purpose Statute, causing a potential Antideficiency Act violation if they use $[redacted] in procurement funds to develop Block II capabilities that significantly increase IRST scanning performance and take 4 years to develop. PMA-265 officials managed the IRST as ACAT II when they should have managed the program as an ACAT I with total RDT&E funds of $[redacted] in FY 2014 dollars. Unless the USD(AT&L) re-designates the IRST program as an ACAT I, the IRST program may not receive appropriate oversight from the USD(AT&L), and Congress may not be notified of its development.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation 1

(U) We recommend the Assistant Secretary of the Navy (Research, Development, and Acquisition):

a. ~~(FOUO)~~ Reprogram the Block II development costs of $[redacted] to Research, Development, Test and Evaluation funds before program officials execute the Block II development to avoid violating section 1301, title 31, United States Code, the Purpose Statute, causing a potential Antideficiency Act violation.

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments

~~(FOUO)~~ The ASN(RD&A) stated Block II is unfunded for FY 2014 and FY 2015 due to congressional and Navy budget adjustments, and all future Block II development will be requested and funded as RDT&E.

(U) Our Response

~~(FOUO)~~ Comments from the ASN(RD&A) partially addressed the recommendation. However, the ASN(RD&A) should specifically address the $[redacted] for Block II development. Block II remains a program requirement regardless of the stated current funding status. Block II requires development prior to production. The 2014 Program Objective Memorandum cost estimate calculated Block II development costs to be $[redacted] but proposed the use of procurement funding.

(U) The ASN(RD&A) must provide documentation that supports that Block II development is not funded for FY 2014 and FY 2015. Additionally, the ASN(RD&A) must provide documentation that any future Block II development will use RDT&E funding. ASN(RD&A) must also provide documentation that addresses estimated Block II funding for FY 2016–FY 2018. Therefore, we request ASN(RD&A) provide additional comments.

b. (U) Notify the Under Secretary of Defense for Acquisition, Technology, and Logistics that the Research, Development, Test and Evaluation costs for Block I and II will exceed the Acquisition Category I threshold

(U) and request that the Under Secretary of Defense for Acquisition, Technology, and Logistics re-designate the F/A-18E/F Infrared Search and Track to an Acquisition Category I program.

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments

~~(FOUO)~~ The ASN(RD&A) agreed that acquisition programs with estimated RDT&E funding of more than $[redacted] should be designated as an ACAT I program. The ASN(RD&A) further stated any future RDT&E funding for the Block II development will be reported by the program office and assessed by the ASN(RD&A) to determine if the IRST program should be designated as an ACAT I program in accordance with Interim DoDI 5000.02.

(U) Our Response

~~(FOUO)~~ Comments from the ASN(RD&A) did not address the specifics of the recommendation. The F/A-18E/F IRST Block II remains a requirement, and estimates show the development will cost $[redacted] RDT&E funds for Block I and II total about $[redacted] in FY 2014 dollars, which exceeds the ACAT I designation as defined by Interim DoDI 5000.02. ACAT-level changes should be reported as soon as the DoD Component anticipates that the program is within [redacted] of the next ACAT level. Regardless of the funding, the estimate for the Block II requirement necessitates re-designation of the F/A-18E/F IRST to an ACAT I program. Therefore, we request ASN(RD&A) provide additional comments.

(U) Recommendation 2

(U) We recommend the Under Secretary of Defense for Acquisition, Technology, and Logistics designate the F/A-18E/F Infrared Search and Track as an Acquisition Category I program.

(U) Management Comments Required

(U) The USD(AT&L) did not provide comments to the draft report. We request the USD(AT&L) provide comments on the final report.

(U) Management Comments on the IRST Program, Internal Controls, the Report Title, and Our Response

(U) Executive Summary

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments

~~(FOUO)~~ The ASN(RD&A) provided an executive summary and stated Block II development was initially viewed as a Commercial Off-the-Shelf/Non-Developmental Item, which would not require RDT&E funding. The ASN(RD&A) stated the current fiscal environment has changed the Block II development timeline and will allow the program office to use RDT&E funds for the Block II development in the future. The ASN(RD&A) noted Block II has not been appropriated any procurement funds and no funding was requested in FY 2015. The ASN(RD&A) further stated any future RDT&E funding for the Block II development will be reported by the program office and assessed by the ASN(RD&A) to determine if the IRST program should be designated as an ACAT I program in accordance with Interim DoDI 5000.02.

(U) Internal Controls

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments

(U) The ASN(RD&A) noted their response to Recommendations 1.a and 1.b. and stated they will request RDT&E funds for any future Block II development.

(U) Report Title

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments

(U) The ASN(RD&A) suggested we change the title of the report to "The Department of the Navy Improperly Requested Aircraft Procurement, Navy Funds for the Infrared Search and Track Block II Development."

(U) Our Response

(U) The proposed title does not capture that the ASN(RD&A) did not inform the USD(AT&L) of the need to re-designate the IRST as an ACAT I program when the

(U) Our Response

(U) The proposed title does not capture that the ASN(RD&A) did not inform the USD(AT&L) of the need to re-designate the IRST as an ACAT I program when the February 2012 President's Budget Submission for FY 2013 provided full funding approval. We not only reported on the potential misuse of funds, but management's actions after inappropriately requesting procurement funds to develop Block II. Therefore, we did not change the title of the report.

(U) Appendix A

(U) Scope and Methodology

(U) We conducted this performance audit from February 2013 through March 2014 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.

(U) We conducted a site visit to PMA-265 from May 7 through May 9, 2013, and to the Office of the Chief of Naval Operations on May 10, 2013. We interviewed officials from the following offices responsible for developing, managing, and overseeing the IRST program: Naval Air Systems Command PMA-265; Deputy Assistant Secretary of Defense for Developmental Test and Evaluation; Office of the Secretary of Defense, Director, Operational Test and Evaluation; Commander Operational Test and Evaluation Force; Chief of Naval Operations, Air Warfare Division; and the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics.

(U) We reviewed documents dated between December 2008 and May 2013 that PMA-265 officials used to plan, develop, and prepare the IRST for the initial production decision. Specifically, we reviewed:

- (U) F/A-18E/F Infrared Search and Track, Block I, Milestone B, Acquisition Strategy, April 2011;
- (U) Acquisition Decision Memorandum in Support of Infrared Search and Track Milestone B Engineering and Manufacturing Development Phase Entry, July 12, 2011;
- (U) Acquisition Program Baseline, F/A-18E/F Infrared Search and Track, June 16, 2011;
- (U) FY 2007-FY 2014 Department of the Navy, Aircraft Procurement Budget Estimates Submission;

- (U) FY 2007-FY 2014 Department of the Navy Research, Development, Test and Evaluation Budget Estimates Submission;
- (U) F/A-18E/F Infrared Search and Track Program Report, May 2013 Quarterly Dashboard Updates;
- (U) Infrared Search and Track Program Life Cycle Cost Estimate, May 24, 2011;
- (U) F/A-18E/F Infrared Search and Track, Gate 6 Briefing, October 2012;
- (U) Program Objective Memorandum 14 IRST Block II Rough Order of Magnitude Cost Estimate, September 22, 2011;
- (U) F/A-18 E/F Infrared Search and Track Milestone B Brief, June 17, 2011;
- (U) Capability Development Document for F/A-18 Infrared Search and Track, Increment I, December 10, 2008; and
- (U) Capability Development Document for F/A-18 Infrared Search and Track, Increment I, Change I, April 13, 2011.

(U) Use of Computer-Processed Data

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

(U) Use of Technical Assistance

(U) We requested assistance from the Office of the Deputy Inspector General for Auditing, Quantitative Methods Division. NAVY/NAVAIR (b) (3) [redacted] Also, an Executive Assistant for the Office of Deputy Inspector General for Policy and Oversight accompanied the audit team to a site visit to PMA-265 at Naval Air Systems Command, Patuxent River, Maryland, and Chief Naval of Operations, Arlington, Virginia.

(U) Prior Coverage

(U) No prior coverage has been conducted on the IRST during the last 5 years.

(U) Appendix B

(U) Block II Capability Increase

~~(FOUO)~~ [redacted]

- ~~(S)~~ [redacted]
- ~~(S)~~ [redacted]
- ~~(FOUO)~~ [redacted]

(U) Appendix C

(U) Derivative Source

~~(FOUO)~~ NAVY/NAVAIR (b) (1), Sec 1.7(e) [redacted]

(U) Management Comments

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition)

(U)

THE ASSISTANT SECRETARY OF THE NAVY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

APR 22 2014

MEMORANDUM FOR INSPECTOR GENERAL DEPARTMENT OF DEFENSE

SUBJECT: Response to Inspector General Department of Defense Draft Report "Navy Officials Inappropriately Managed the Infrared Search and Track Block II Development" (Report No. D2013-D000CD-0107.000 Dated March 19, 2014)

Attached is our response to recommendations and internal controls comments contained in the subject report.

We appreciate the opportunity to respond to the draft report.

If you have any questions about the response, please contact [redacted], Office of the Deputy Assistant Secretary of the Navy for Air Programs, Action Officer, e-mail [redacted] or phone [redacted].

Sean J. Stackley

Attachments:
As stated

cc:
NAVINSGEN

(U)

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition (cont'd)

~~(FOUO)~~

RESPONSE TO DODIG DRAFT REPORT PROJECT NO. D2013-D000CD-0107.000, "NAVY OFFICIALS INAPPROPRIATELY MANAGED THE INFRARED SEARCH AND TRACK BLOCK II DEVELOPMENT",

DATED 22 MARCH 2014

RESPONSE TO RECOMMENDATIONS AND INTERNAL CONTROLS COMMENTS:

(U//~~FOUO~~) Executive Summary: During the initial formulation of the program, the performance improvements envisioned for Block II were viewed as inherent in the Commercial Off-the-Shelf/Non-Developmental Item (COTS/NDI) components without the need for additional development activity that would have required RDT&E funding. The current fiscal environment has necessitated a change in IRST Block II development timeline, which has provided the program office an opportunity to coordinate future funding with the resource sponsor. Block II development will be provided as RDT&E funding, which aligns with the DoDIG recommendation (1.a.). It should be noted that no procurement funding for Block II has been appropriated to date and no funding was requested for FY15. With respect to any future funding for the development of IRST Block II, the program office will report the RDT&E funding levels for the IRST program to ASN (RD&A) in order to assess whether IRST should be designated an ACAT I program in accordance with Interim DoD 5000.02. ASN(RD&A) appreciates the effort of the DoDIG audit staff and provides the following comments in response to the draft report recommendations.

(U) DOD IG RECOMMENDATION:

1. (U) DoDIG recommended the Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN(RD&A)):

1 a. (~~FOUO~~) Reprogram the Block II development costs of $[NAVY/NAVAIR (b) (5)] to Research, Development, Test, and Evaluation funds before program officials execute the Block II development to avoid violating section 1301, title 31, United States Code, the Purpose Statute, causing a potential Antideficiency Act violation.

Response 1 a.:

Enclosure (1)

~~(FOUO)~~

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition (cont'd)

~~(FOUO)~~

(U//~~FOUO~~) Due to various Congressional and internal budget adjustments, Block II is currently unfunded in FY14 and FY15. All funding for future Block II development work will be requested as RDT&E.

1. (U) DoDIG recommended the Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN(RD&A)):

1 b. (U) Notify the Under Secretary of Defense for Acquisition, Technology, and Logistics that the Research, Development, Test, and Evaluation costs for Block I and II will exceed the Acquisition Category I threshold and request that the Under Secretary of Defense for Acquisition, Technology, and Logistics re-designate the F/A-18E/F Infrared Search and Track (IRST) to an Acquisition Category I program.

Response 1 b.:

(U//~~FOUO~~) ASN(RD&A) agrees that acquisition programs with estimated RDT&E funds of more than $480M in FY14 constant dollars should be categorized as ACAT I programs. With respect to any future funding for the development of IRST Block II, the program office will report the RDT&E funding levels for the IRST program to ASN (RD&A) in order to assess whether IRST should be designated an ACAT I program in accordance with Interim DoD 5000.02.

2 (U) DoDIG recommended the USD AT&L designate the F/A-18E/F IRST as an ACAT I program.

Response 2:

See response 1b above.

Enclosure (1)

~~(FOUO)~~

(U) Assistant Secretary of the Navy (Research, Development, and Acquisition (cont'd)

~~(FOUO)~~

DoD IG Review of Internal Controls:

(U) DoDIG identified internal control weaknesses in the management of the IRST program. Specifically, PMA-265 officials, with approval from ASN(RD&A), inappropriately requested procurement funding to finance the development of the Block II capabilities. DoDIG will provide a copy of final report to the senior official responsible for internal controls in the Department of the Navy.

Response to DoDIG comment on Internal Controls:

(U//~~FOUO~~) As noted in the response to recommendations 1.a. and 1.b., RDT&E funding will be requested for any future Block II development.

Title of Audit Report: ASN (RD&A) recommends that the title of the report factually reflect the specific Department of the Navy action that the DoDIG has found to be erroneous. ASN (RD&A) therefore requests that the DoDIG revise the title of the report to read:

"The Department of the Navy Improperly Requested Aircraft Procurement, Navy Funds for the Infrared Search and Track Block II Development."

Enclosure (1)

~~(FOUO)~~

(U) Acronyms and Abbreviations

ACAT	Acquisition Category
ASN(RD&A)	Assistant Secretary of the Navy (Research, Development, and Acquisition)
DoD FMR	DoD Financial Management Regulation
DoDI	DoD Instruction
IRST	Infrared Search and Track
MDA	Milestone Decision Authority
NDI	Non-Developmental Item
PMA	Program Manager Air
RDT&E	Research, Development, Test and Evaluation
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics

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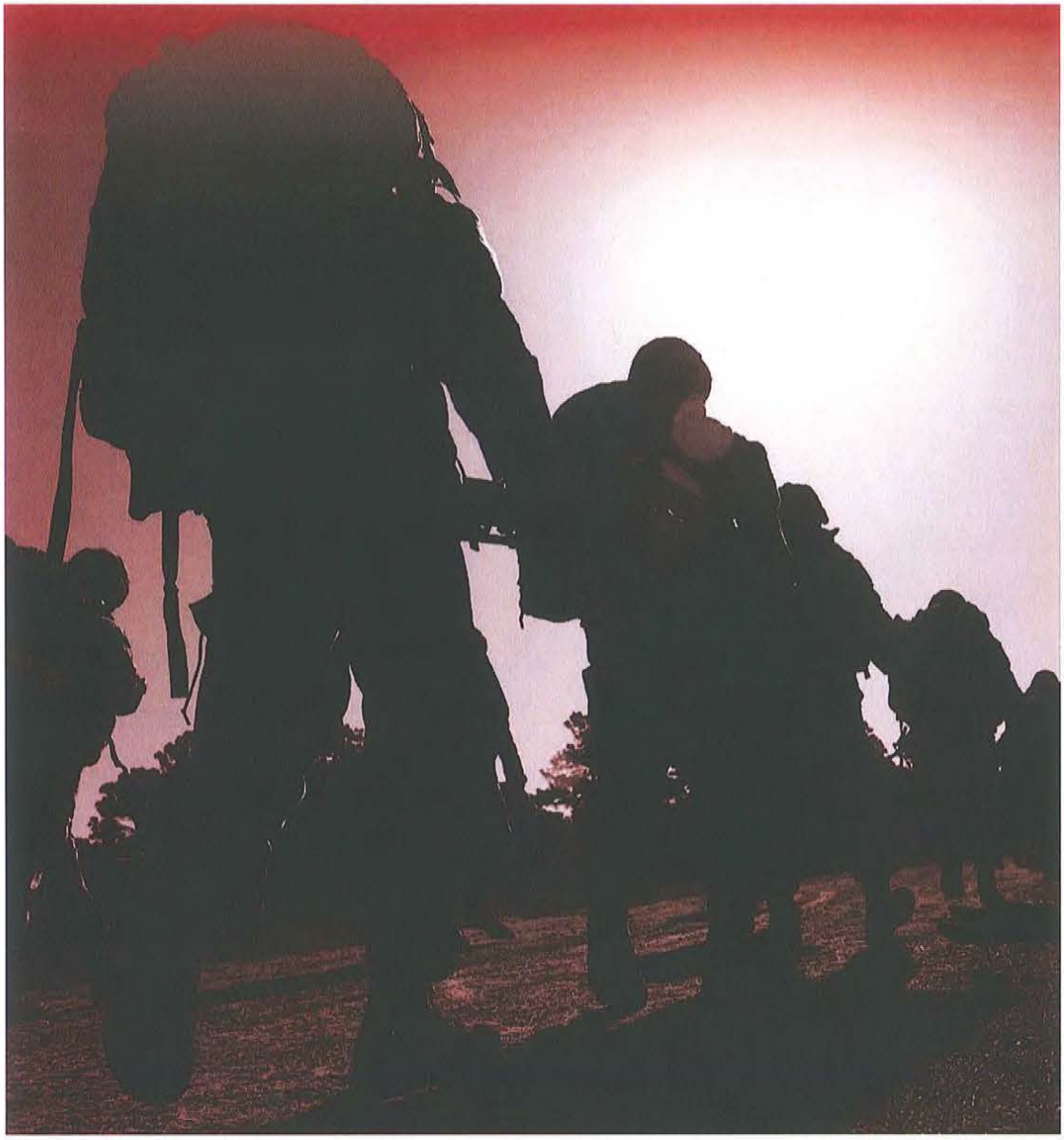

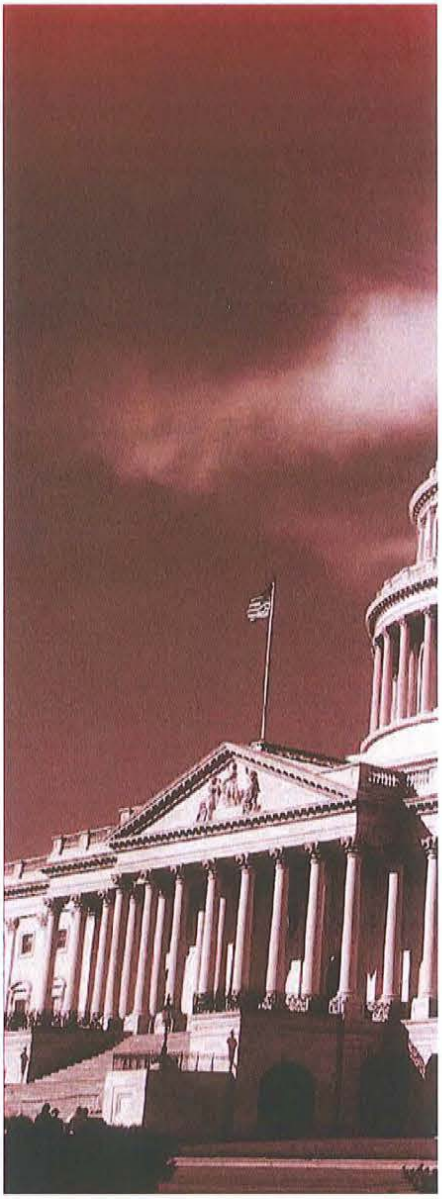

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