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Naval Ordnance Data Classification Issues Identified During the Oversight of the U.S. Navy General Fund Financial Statement Audit for FY 2020

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

July 2, 2020

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE & SECURITY ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER DEPUTY UNDER SECRETARY OF THE NAVY FOR POLICY DEPUTY CHIEF OF NAVAL OPERATIONS FOR FLEET READINESS AND LOGISTICS

SUBJECT: Naval Ordnance Data Classification Issues Identified During the Oversight of the U.S. Navy General Fund Financial Statement Audit for FY 2020 (Report No. DODIG-2020-101)

Introduction

(FOUO) The DoD Office of Inspector General (DoD OIG) has completed an analysis of the Department of the Navy (DON) Security Classification Guides (SCGs) related to conventional naval ordnance. During the Financial Statement Audits of the Navy General Fund for FYs 2018, 2019, and 2020, we identified risks associated with Navy personnel improperly marking classified documents, and conflicting and inconsistent application of SCG requirements. This Notice of Concern (NOC) provides specific observations to Navy officials on the classification and marking of ordnance data that should be researched to ensure that it is properly safeguarded.

Background

(FOUO) The DoD OIG worked with Naval Supply Systems Command–Navy Ammunition Logistics Command (NAVSUP-NALC) and Deputy Chief of Naval Operations for Fleet Readiness and Logistics (OPNAV N4) officials to facilitate independent public accounting firm Ernst & Young's (EY) work during the FY 2018, 2019, and 2020 Financial Statement Audits of the Navy General Fund.¹

(FOUO) The DON's accountable property system of record for ordnance is Ordnance Information System Wholesale (OIS-W), which operates on the Secret Internet Protocol Router Network (SIPRNet). Navy personnel located at ordnance sites use a module of OIS-W, OIS-Retail (OIS-R), which populates OIS-W and operates on either SIPRNet or the Non-Classified Internet Protocol Router Network (NIPRNet). In addition, the Marine Corps maintains and manages ordnance on OIS Marine Corps (OIS-MC), which operates on NIPRNet, and also populates OIS-W.

¹ The DoD OIG contracted with EY to perform the Full Financial Statement Audits.

(FOUO) The DoD OIG audit team also requested the classification requirements for Marine Corps-managed ordnance. The Marine Corps is part of the DON but is currently audited separately from the Navy by the independent public accounting firm Kearney & Company. Although not included in EY's Financial Statement Audits of the Navy, the classification requirements for Marine Corps-managed ordnance could affect future audits of the DON when the Navy and Marine Corps audits are combined. Marine Corps officials stated that Marine Corps-managed ordnance is considered unclassified, including locations outside the continental United States (OCONUS) and afloat activities.²

(FOUO) Due to the Navy's mixed use of SIPRNet and NIPRNet, EY performed existence and completeness procedures for naval ordnance in the classified environment as part of the Financial Statement Audits of the Navy General Fund.³ The DoD OIG audit team requested ordnance SCGs from NAVSUP-NALC officials to determine the classification of audit-related data elements for naval ordnance. Specifically, the DoD OIG audit team reviewed classification requirements for specific data elements used by EY to test the existence and completeness of naval ordnance. This included the Navy inventory identification number, unit identification code, condition code, serial number/lot number, Navy ammunition logistics code, quantity, and dollar value within the SCGs.

(FOUO) NAVSUP-NALC provided the DoD OIG with a list of 82 SCGs related to conventional naval ordnance, including the Navy Inventory Management SCG. Of 82 SCGs, nine have been cancelled and seven have been superseded. The DoD OIG audit team obtained 65 of the remaining 66 SCGs. We also identified five SCGs related to conventional naval ordnance that were not on NAVSUP-NALC's list, and reviewed a total of 70 SCGs. The DoD OIG audit team also requested the system-level SCG for the OIS system; however, NAVSUP-NALC officials stated that an SCG did not exist for either OIS-W or OIS-R.

Results

(FOUO) During the FYs 2018, 2019, and 2020 Financial Statement Audits of the Navy General Fund, the DoD OIG observed inconsistencies regarding the classification and handling of ordnance information for the Navy and the Marine Corps. Specifically, we observed documents that were not properly classified and marked according to DoD policy and ordnance SCGs. We also observed conflicts between the Navy Inventory Management SCG and specific ordnance SCG requirements.

Improperly Marked Classified Documents

(FOUO) During the FY 2018 and 2019 audits, Navy personnel provided auditors OIS documents that were not properly marked in accordance with DoD and Navy guidance. Specifically, during FY 2018, EY and OPNAV N4 officials observed Navy personnel at OCONUS sites providing

² "Afloat activities" are defined as Navy ships that deploy to sea.

³ Existence and Completeness procedures verify that all assets exist, and are properly accounted for on the financial statements.

(FOUO) OIS-R documents without classification markings. According to the Navy Inventory Management SCG, ordnance inventories and transaction reports at OCONUS locations that depict the total combat usable assets and include the Navy ammunition logistics code, quantity, and location should be marked as CONFIDENTIAL.

(FOUO) In FY 2020, NAVSUP-NALC officials provided auditors with a SIPRNet e-mail with the OIS-W worldwide naval ordnance population for the first quarter of 2020, which did not include a classification authority block (CAB) as required by DoD Information Security Program Manual (DoDM) 5200.01 Volumes 1 and 2 and NAVSUP-NALC P-724. The guidance requires derivative classifiers to include a CAB on the face of each derivatively classified document. The CAB must include the name and title of the derivative classifier, specific SCGs or source documents, and the declassification date. NAVSUP-NALC provided a CAB in the SIPRNet e-mail that contained first quarter OIS data, but not on the data itself. The CAB listed the "Classified By" section as "SCG" but not the specific person who derivatively classified the data. Additionally, according to the CAB included in the e-mail, the first quarter data was derived from "Multiple Sources." A list of the multiple SCG sources was not included as required by the guidance.

(FOUO) In addition, NAVSUP-NALC personnel did not portion mark the OIS-W FY 2020 first quarter data. DoDM 5200.01 Volumes 1 and 2 state that derivatively classified documents must be portion marked according to the applicable SCGs and show which information is classified at what level. The guidance also states that a statement describing which portions are classified and their level of classification may be substituted if marking each portion individually is impracticable. The first quarter data provided by NAVSUP-NALC personnel contained neither portion markings nor an overall statement describing the portions that are classified. The only classification markings were in the e-mail that contained OIS-W information. The e-mail had a header and footer marked SECRET. The audit team observed similar issues in 2018 and 2019, with NAVSUP-NALC personnel improperly marking the data. OIS-W has an interim Authority to Operate at the CONFIDENTIAL level; however, all NAVSUP-NALC data provided has been marked SECRET which exceeds the interim Authority to Operate at the CONFIDENTIAL level. Additionally, the Navy Inventory Management SCG states that inventories depicting the total worldwide population are classified at the CONFIDENTIAL level, not SECRET.

Conflicting SCG Requirements and Inconsistent Application

(FOUO) Our review of the 70 SCGs identified several discrepancies between the Navy Inventory Management SCG and ordnance-related SCGs. The Navy Inventory Management SCG states that ordnance inventories depicting the total number of combat usable assets at locations within the continental United States (CONUS) are unclassified. However, the DoD OIG audit team identified nine SCGs for specific weapon systems which stated that quantities for these weapons are classified regardless of location. In addition, six of the nine SCGs have ordnance inventory at CONUS locations. For example, one of the missile (FOUO) SCGs states that total inventories, regardless of location, should be classified as CONFIDENTIAL. Based on our analysis of the data for the first quarter of FY 2020, there are over 2900 missiles at CONUS locations.

(FOUO) Additionally, the Navy Inventory Management SCG states that ordnance inventories at afloat units and OCONUS locations are classified as CONFIDENTIAL. Specifically, inventories that depict the total combat usable assets that include the Navy ammunition logistics code, quantity, and location, other than missiles and mines, would be classified as CONFIDENTIAL. However, we identified four weapon system-specific SCGs, not related to the missiles and mines, that state the quantity of the item is unclassified regardless of location. The Navy Inventory Management SCG also states, for missiles and mines, to refer to the applicable program SCG. We also found seven missile SCGs that provide no classification guidance because they either reference the Navy Inventory Management SCG or do not include specific classification requirements for inventories. See Tables A and B in the Attachment for a summary of SCG conflicts.

(FOUO) Our review also identified discrepancies related to the Navy's application and understanding of the classification of naval ordnance. Specifically, NAVSUP-NALC and OPNAV N4 officials stated that combining information from multiple CONUS locations, or showing a significant percentage of the ordnance inventory, could be classified due to compilation, based on the SCGs. However, our review of 70 ordnance-related SCGs did not identify any such compilation classification requirements. Additionally, NAVSUP-NALC and OPNAV N4 officials did not define "significant percentage" in terms of "classified due to compilation."

Navy Actions

(FOUO) The DoD OIG provided a memo titled, "Observation – Classification of Navy Ordnance Data Used for Financial Statement Audit," to NAVSUP-NALC and OPNAV N4 in March 2019, which identified inconsistencies between the SCGs and the treatment of ordnance information the DoD OIG audit team observed during the audit. In March 2019 the DoD OIG briefed OPNAV N4 on our identified inconsistencies. NAVSUP-NALC and OPNAV N4 acknowledged the observations in the March 2019 memorandum, and agreed to launch their own review into the situation.

(FOUO) In FY 2020, the DoD OIG audit team has continued to observe the same inconsistencies in the marking and classification of ordnance-related data. In February 2020, the DoD OIG provided the March 2019 memorandum and briefed officials from the Office of the Undersecretary of Defense for Intelligence and Security (OUSD(I&S)) and the Office of the Deputy Under Secretary of the Navy for Policy regarding its concerns. These officials agreed with our observations and have been working with NAVSUP-NALC and OPNAV N4 officials to evaluate all inconsistencies regarding ordnance inventory data. We will continue to work with the Navy and OUSD(I&S) to ensure appropriate actions are taken.

Conclusion

(FOUO) Classified information not marked in accordance with DoD and Navy guidance may lead to the mishandling or improper release of classified documentation. We identified inconsistent handling of information among the Navy and the Marine Corps along with conflicting SCGs in use by NAVSUP-NALC that could result in the misclassification of ordnance information. The inconsistent application of SCGs could also result in unnecessary financial and logistical requirements for the Financial Statement Audits of the Navy.

Recommendation, Management Comments, and Our Response

Recommendation 1

(FOUO) We recommend that NAVSUP-NALC and OPNAV N4 officials review the SCGs for all ordnance in OIS to ensure that the information is marked at the correct classification. NAVSUP-NALC and OPNAV N4 officials should also coordinate with Marine Corps officials to ensure that the handling of ordnance information is consistent throughout the DON.

Deputy Chief of Naval Operations for Fleet Readiness and Logistics Comments

(FOUO) The Branch Head for Logistics-Ordnance Supply Chain, responding for OPNAV N4, provided the results of the Navy's review of the SCG's identified in Tables A and B for possibly having conflicting classification requirements. OPNAV N4 officials determined that 1 of 20 SCGs had a conflicting requirement, 5 of 20 SCGs had possible issues with circular referencing, and had no comment on 4 of 20 SCGs. See Tables A and B in the Attachment for a summary of the results and corrective actions of the OPNAV N4 review for each of the SCGs. The Branch Head for Logistics-Ordnance Supply Chain also stated that OPNAV N4 will update SCG 03-035.6, "Conventional Naval Ordnance Inventory Management Information" to address circular referencing and minimize potential conflicts. In addition, he agreed that all personnel derivatively classifying ordnance inventory management information should properly mark and protect that information.

Our Response

(FOUO) The actions of the Branch Head for Logistics-Ordnance Supply Chain meet the intent of the recommendation. We request that the Branch Head for Logistics-Ordnance Supply Chain provide a copy of the updated SCG 03-035.6, "Conventional Naval Ordnance Inventory Management Information" when it issued.

Recommendation 2

(FOUO) We recommend that OUSD(I&S) and Office of the Deputy Under Secretary of the Navy for Policy officials develop a policy to ensure that SCGs are coordinated across the Department and the Military Services to identify conflicting requirements prior to being finalized.

OUSD Intelligence and Security Comments

(FOUO) On May 5, 2020, we met with the Chief of Information Security Policy at OUSD(I&S). During the meeting he agreed with the DoD OIG's concerns. He stated that OUSD(I&S) is in the process of updating the DoD Manual 5200.45, "Instructions for Developing Security Classification Guides." (b) (5)

Our Response

(FOUO) The actions of the Chief of Information Security Policy at OUSD(I&S) meet the intent of our recommendation. We request that the Chief of Information Security Policy at OUSD(I&S) provide a copy of the updated DoD Manual 5200.45, "Instructions for Developing Security Classification Guides" when issued.

(FOUO) The Branch Head for Logistics-Ordnance Supply Chain and the Chief of Information Security Policy at OUSD(I&S) agreed to address all recommendations presented in the NOC; therefore, the recommendations are considered resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, the recommendations may be closed when we receive adequate documentation showing that all agreed upon actions to implement the recommendations have been completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Your response should be sent to either followup@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET. If you have any questions please contact (b) (6) at (b) (6) at (b) (6).

Louin T. Venable

Lorin T. Venable, CPA Assistant Inspector General for Audit Financial Management and Reporting

Attachment

Scope and Methodology

(FOUO) This NOC is being issued based on concerns identified during our analysis of Department of the Navy Security Classification Guides reviewed as part of our ongoing Full Financial Statement Audit of the Navy. A draft of this NOC was provided to the Navy and OUSD(I&S). The summary of the their responses as well as our analysis of their responses is included in the Recommendation, Management Comments, and Our Response section of the NOC.

Review of SCGs and Interviews

(FOUO) We held meetings with officials from OUSD(I&S), NAVSUP-NALC, and OPNAV N4 to gain an understanding of how SCG information is used and interpreted by different DoD and Navy entities.

(FOUO) We performed an analysis of the SCGs in use by NAVSUP-NALC, comparing the Financial Statement Audits of the Navy-relevant data of each program SCG to the Navy Inventory Management SCG. We also reviewed all of the subject SCGs for compilation classification requirements.

(FOUO) We reviewed the following laws and regulations for SCG and classification guidance:

- Executive Order 13526, "Classified National Security Information Memorandum," December 29, 2009
- DoD Manual 5200.01 Vol. 1, "DoD InfoSec Program," February 24, 2012
- DoD Manual 5200.01 Vol. 2, "DoD InfoSec Program," March 19, 2013
- NAVSUP P-724, "Conventional Ordnance Stockpile Management Policies and Procedures Publication," July 10, 2018
- SECNAVINST 5510.36, "Department of the Navy Information Security Program," June 30, 2006
- SECNAV M-5510.36m, "Interim Policy for Department of the Navy Classification Guides," August 31, 2016

(FOUO) We reviewed the Navy Inventory Management SCG to identify the classification requirements related to the data elements used by EY to test the existence and completeness of naval ordnance. The Navy Inventory Management SCG states that the classification for inventories that depict total combat useable assets at CONUS activities is UNCLASSIFIED//FOR OFFICIAL USE ONLY. We found nine program-specific SCGs

(FOUO) through our review that have conflicting requirements compared to the Navy Inventory Management SCG for CONUS activities that are summarized in Table A. Additionally, the Navy Inventory Management SCG states that the classification for inventories, other than tactical missiles and mines, that depict the total combat useable assets at afloat units and OCONUS activities, is CONFIDENTIAL. We identified 11 program-specific SCGs that conflict with this requirement, which are summarized in Table B.

(FOUO) SCGs with CONUS Discrepancies				
SCG ID	SCG Title	Description	Classification	Results of Navy's Review
02-030.3	Anti-Radiation Missile (ARM) All Variants	Inventory/Inventory Objective AGM-88 B/C/E/F	CONFIDENTIAL	In a clarifying remarks sections, it states, "DON operational, OCONUS/Afloat quantity is CONFIDENTIAL, CONUS is UNCLASSIFIED." This weapons SCG does not conflict with SCG 03-035.5.
02-047.02	Rockeye II, MK-20 Mods and CBU-99B/B	Total Inventory Number operationally ready or their specific locations unless readily discernible by simple observation	CONFIDENTIAL	This weapons SCG does not directly address ordnance inventory management classification requirements beyond 'total inventory.' 'Operationally ready' is not an inventory management term. Therefore, this weapons SCG is not in conflict with SCG 03-035.5.
02-058.5	Sidewinder Missile, AIM-9L	Number operationally ready at any specific location, unless readily discernible by simple observance	CONFIDENTIAL	This weapons SCG does not directly address ordnance inventory management classification requirements beyond 'total inventory.' SCG 03-035.6 and this SCG will need to ensure terms are commonly defined to minimize opportunity for derivative classification errors.
				(FOUO

(FOUO) Table A. Summary of Security Classification Guide CONUS Conflicts.

(FOUO) SCGs with CONUS Discrepancies				
SCG ID	SCG Title	Description	Classification	Results of Navy's Review
02-095.3	Sparrow Missile AIM/RIM-7M/P	Number operationally ready at any specific location, unless readily discernible by simple observance	CONFIDENTIAL	This weapons SCG does not directly address ordnance inventory management classification requirements beyond 'total inventory.' 'Operationally ready' is not an inventory management term. Therefore, this weapons SCG is not in conflict with SCG 03-035.5.
02-112.2	AGM-84, Slam-er Weapon System	Numbers operationally ready or their specific locations: total quantity by locations for all others	CONFIDENTIAL	This weapons SCG indirectly addresses ordnance inventory management classification requirements: total inventory and total quantity by location for land storage when not associated with an operational plan as UNCLASSIFIED. 'Operationally ready' is not an inventory management term. Therefore, this weapons SCG is not in conflict with SCG 03-035.5.
02-215.4	Sidewinder Missile, AIM-9m	Number operationally ready at any specific location, unless readily discernible by simple observance	CONFIDENTIAL	'Operationally ready' is not an inventory management term. Therefore, this weapons SCG is not in conflict with SCG 03-035.5.
05-164.1	High Altitude Anti-Submarine Warfare Capability (HAAWC) Air Launch Accessory for Torpedoes	HAAWC Warshot AUR Inventory (deployed and/or in storage)	CONFIDENTIAL	This weapons SCG indirectly addresses ordnance inventory management classification requirements: stating ALA inventory (storage) is UNCLASSIFIED. This weapons SCG is not in conflict with SCG 03-035.5. (FOUD)

(FOUO) Table A. Summary of Security Classification Guide CONUS Conflicts. (cont'd)

(FOUO) SCGs with CONUS Discrepancies				
SCG ID	SCG Title	Description	Classification	Results of Navy's Review
Griffin	Griffin	Quantity by theater, command or claimant	CONFIDENTIAL	This weapons SCG indirectly addresses ordnance inventory management classification requirements: stating information is unclassified (FOUO) beyond milestone C. This weapons SCG is not in conflict with SCG 03-035.5.
Maverick	AGM-65 Maverick Missile	Number of AGM-65 on hand (inventory) where the following is discussed or included: a specific plan, OPLAN, CONPLAN. Assessments of shortfall, base or theater, units supported, C-Day for resupply, theater start time periods	SECRET	As written, this weapons SCG does appear to be in conflict with requirements of SCG 03-035.5. This SCG requires a classification of SECRET. However, per the Air Force Life Cycle Management Center for Munitions (AFLCMC/EBHGA), that is only when the data elements provide an indication of capability. Current wording used is not clear that is the case and can lead one to conclude that inventory of assets at a specific base should be classified SECRET. The Navy has pointed out this issue to the AFLCMC/EBHGA.

(FOUO) Table A. Summary of Security Classification Guide CONUS Conflicts. (cont'd)

(FOUO) SCGs with OCONUS or Afloat Discrepancies				
SCG ID	SCG Title	Description	Classification	Results of Navy's Review
02-031.07	Harpoon Weapon System (Cruise Missile)	Total Quantity by location classify in accordance with SCG ID# 03-035	Unknown	Possible circular reference corrected with draft SCG 03 035.6.
02-127.7	Sidewinder AIM-9X	Refer to SCG# 03-035, Inventory Management Data, Conventional Naval Ordnance (Except Chemical Biological and RDT&E Dollar Amounts)	Unknown	Possible circular reference corrected with draft SCG 03 035.6.
02-293.2	Air Anti-Submarine Warfare (ASW) Systems	Capstone inventories not related to the TMR and where a vulnerability does not exist due to insufficient inventory	FOR OFFICIAL USE ONLY	No Comment
03.062.03	Standard Missile-1 (SM-1)	Quantities of missiles – refer to OPNAVIST S5513.3C, SCG# 03-35 for guidance on inventory data	Unknown	Possible circular reference corrected with draft SCG 03 035.6.
03-063.08	Standard Missile-2/3/4/6 (SM-2/3/4/6)	Number operationally ready at OCONUS locations or aboard afloat units: refer to OPNAVIST 5513.3C, SCG ID# 03-035.03	Unknown	Possible circular reference corrected with draft SCG 03 035.6.
03-086.01	Vertical Launch Asroc (VLA)	Current Inventory of ready weapons at a specific location: refer to SCG ID# 03-035	Unknown	Possible circular reference corrected with draft SCG 03 035.6.
BLU-129/B	Bomb, 500 Pound, BLU-129/B, General Purpose	Production information including: data on parts, accessories, and equipment; total production quantities; or number on hand, etc.	UNCLASSIFIED	Section refers to production information. The Navy doesn't produce bombs OCONUS or afloat, so not applicable.
CBU	AFLCMC/EB Cluster Bomb Units	Production information including: data on parts, accessories, and equipment; total production quantities; or number on hand, etc.	UNCLASSIFIED	Section refers to production information. The Navy doesn't produce bombs OCONUS or afloat, so not applicable. (FOUO)

(FOUO) Table B. Summary of Security Classification Guide OCONUS and Afloat Conflicts.

(FOUO) SCGs with OCONUS or Afloat Discrepancies				
SCG ID	SCG Title	Description	Classification	Results of Navy's Review
Hellfire	Hellfire Family	There is no data within SCG on how to treat classification of data quantity by location	Unknown	No Comment
Javelin	Javelin	There is no data within SCG on how to treat classification of data quantity by location	Unknown	No Comment
Paveway	Paveway Laser Guided & Dual Mode LG Bomb Guidance Kits & Support Equipment for GBU-10, -12,-16,-22,-24,-27, -28,-48,-49	Inventory quantities at or enroute to land based storage depots. At or enroute to operational locations.	UNCLASSIFIED	No Comment (EOL

(FOUO) Table B. Summary of Security Classification Guide OCONUS and Afloat Conflicts. (cont'd)

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