



DEPARTMENT OF THE NAVY

NAVAL SEA SYSTEMS COMMAND  
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IN REPLY TO

NAVSEAINST 4440.24D  
Ser 04L43/015  
20 Dec 04

NAVSEA INSTRUCTION 4440.24D

From: Commander, Naval Sea Systems Command

Subj: SPONSOR OWNED MATERIAL (SOM) MANAGEMENT

Ref: (a) DoD 4140.1-R Materiel Management Regulation  
(b) DoD 7000.14-R Financial Management Regulation (FMR)  
(c) Virtual SYSCOM Memorandum of Agreement 12 (VS-MOA-12)  
(d) NAVSUP P-723 Navy Inventory Integrity Procedures

Encl: (1) Definitions  
(2) Sponsor Owned Material Reason Codes  
(3) Annual Requirements Review (ARR) Guidelines

1. Purpose. This instruction establishes policy, assigns responsibility, and defines procedures for control, management, visibility, accountability and access to Sponsor Owned Material (SOM) in accordance with reference (a) for the Naval Sea Systems Command (NAVSEA). Enclosure (1) provides definitions of terms used in this instruction. The goal of this instruction is to facilitate accomplishment of the following:

a. Accurately recording and reporting SOM inventory including financial reporting requirements.

b. Optimizing visibility and accountability of SOM through automated Total Asset Visibility (TAV) methods and tools.

c. Determining and retaining the levels of SOM necessary to support the mission and/or requirements of the program.

d. Minimizing SOM inventory levels through the timely disposal of excess, obsolete and condemned material.

e. Providing available SOM as a potential source of material for the Navy and DLA stock systems to offset procurements and/or apply lateral redistributions to fill Fleet requirements.

2. Cancellation. NAVSEAINST 4440.24C is hereby canceled.

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3. Exceptions. This instruction excludes:

a. Material under the cognizance of the Deputy Commander for Nuclear Propulsion (NAVSEA 08).

b. Material managed under the Conventional Ammunition Integrated Management System (CAIMS).

c. Navy Stock Account (NSA), Defense Logistics Agency (DLA) and Appropriation Purchase Account (APA) material that is already visible to an Inventory Control Point (ICP) via the Transaction Item Report (TIR).

4. Scope. This instruction applies to material owned by NAVSEA Program Managers (PMs) and other Department of Defense (DoD) PMs and held by Naval Surface Warfare Centers (NSWCs), Naval Undersea Warfare Centers (NUWCs) and other activities functioning as In-Service Engineering Agents (ISEAs) or SOM Holding Activities for NAVSEA. Except for the exclusions noted in paragraph 3 above, the assets included within the scope of this instruction are those procured through General Fund appropriations as defined in reference (b) and categorized as Operating Materials and Supplies (OM&S). OM&S is typically either held for use or held for repair and subsequent use.

5. Background. SOM supports program requirements for production, installation, test and life-cycle maintenance of systems and equipment consistent with program mission charters. SOM includes both part-numbered and local/national stock-numbered assets, as well as both consumable and repairable items. The efforts of the NAVSEA SOM Working Group in the late 1990s led to the development of specific procedures to improve SOM asset accountability and visibility. Since then, additional requirements in areas such as financial accountability have necessitated the latest changes to this instruction.

6. History

a. The Naval Audit Service (NAS) conducted an audit of the NAVSEA Warfare Centers between June 1995 and January 1997 to determine if management, control and accounting of sponsor assets were adequate. The audit found varying degrees of problems associated with SOM. Commander, NAVSEA concurred with the NAS and took aggressive actions to rectify the problems, as outlined in this instruction. NAVSEA also pursued partnership initiatives with NAVSUP to ensure the most effective inventory management of SOM. A subsequent NAS Follow-up Audit, conducted between August 1999 and November 2000, disclosed that, while significant progress had been made in improving overall SOM control and visibility, continued emphasis needed to be placed on this area.

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b. This instruction continues and expands upon the previously initiated controls over NAVSEA SOM designed to minimize its on hand quantity, to adequately document its value in Navy financial statements and to ensure its visibility and integration with other Navy and DoD resources. Accurate logistical information, including adequate financial documentation, has become a valued commodity. Therefore, ensuring the visibility, documentation and accessibility of SOM is a sound business decision. Accordingly, NAVSEA is taking proactive steps in implementing the principles and directives of the Chief Financial Officers (CFO) Act and the Navy's Total Asset Visibility (NAVTAV) initiative, which supports the Secretary of Defense's Joint Total Asset Visibility (JTAV) Program. Compliance with the CFO Act and utilization of NAVTAV principles in controlling SOM will enhance the logistics information necessary for DoD policy makers to maximize material support of the war fighter. The Logistics Transformation Plans outlined in the DoD Reform Initiative Directive (DRID) 54 are a further representation of these goals.

7. Policy. The following policies are established for the management and control of SOM:

a. Under the provisions of reference (c), NAVSUP is designated the Navy's Supply Chain manager and its subordinate commands are responsible for rendering supply support and material management services to Systems Command (SYSCOM) field level activities. Commander Fleet Industrial Support Centers (COMFISCS) is the NAVSUP designated agent for providing supply support to NAVSEA Warfare Centers to include SOM management.

b. A regional FISC organization shall be responsible for rendering all aspects of supply support to each Warfare Center. Because inventory management of SOM is an integral part of Warfare Center supply support, for each geographically separate field activity one person within the supporting FISC will be designated as SOM Manager and serve as responsible agent for that function.

c. All SOM, including material located at a Warfare Center's contractor site, must be identified, tracked and monitored by the activity's SOM Manager.

d. SOM management policies and procedures are the "safety net" for accounting and managing material at Warfare Centers or other SOM Holding Activities. If an item cannot be readily identified and reported under another inventory system, it will be managed as SOM until the item's status and ownership are confirmed.

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e. Each program office will have a Technical Manager (TM) assigned as the SOM representative who will coordinate with the PM and the field activity's SOM Manager.

f. SOM will be:

(1) Recorded in an Automated Information System (AIS) capable of inventory control including transaction processing, total asset visibility and financial reporting. The Industrial Logistics Support Management Information System (ILSMIS) is currently the preferred AIS system for managing SOM. Other SOM management systems must be capable of interfacing with ILSMIS.

(2) Assigned a Reason Code as justification for holding the material as defined in enclosure (2).

(3) Assigned a retention level appropriate for support of known program requirements.

(4) Subject to an Annual Requirements Review (ARR), as defined in enclosure (3), that includes a review and validation of documentation supporting the reason why material is required (Reason Codes) and how retention levels were calculated.

g. SOM will be reported as OM&S to the Assistant Secretary of the Navy, Financial Management and Comptroller (Financial Management Office), via NAVSEA 01P, for inclusion in the Navy's financial records.

h. SOM will be made visible and accessible through logistics and inventory management systems in support of NAVTAV initiatives under the following guidelines:

(1) The PM, with assistance from the TM, shall control access to the material.

(2) The PM can require compensation, either with a credit or in-kind replacement, if SOM is released to satisfy a DoD Supply System requirement.

i. Individual items on hand for four years without an issue will automatically be evaluated as a candidate for redistribution or disposal during ARRs. Those items to be retained must be so justified by a Memo for the Record from the office of the sponsor.

j. Items determined to be in excess of defined requirements will either be redistributed or disposed of in accordance with the following order of precedence:

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- (1) application to another programmatic requirement,
- (2) offer to the Supply System for credit,
- (3) offer to Foreign Military Sales (FMS) programs,
- (4) transfer to a designated residual material redistribution site or
- (5) transfer to the local Defense Reutilization and Marketing Office (DRMO) in accordance with DoD regulations.

k. SOM requirements not reviewed and validated annually, will be categorized as potential excess and targeted for disposal 90 days after informing the local Commanding Officer and cognizant PM via the TM.

l. The dollar value of SOM on hand at the end of each quarter will be reported to SEA 01P by the 6th of the following month for inclusion in the Navy's annual or quarterly financial statements.

m. On hand quantities of SOM will be verified via periodic inventories and/or random spot checks. SOM Holding Activities, in conjunction with their supporting FISC, will develop local inventory procedures utilizing the guidance in reference (d).

8. Responsibilities. The following responsibilities are assigned to ensure effective control and management over SOM.

a. NAVSEA, Deputy Commander/Comptroller (SEA 01). SEA 01 will:

- (1) Coordinate NAVSEA's SOM financial reporting requirements.
- (2) Develop and maintain CFO command policy and program objectives for SOM financial management.
- (3) Develop guidance documents to assist with the financial control and management of SOM assets.
- (4) Include SOM in the submission of financial statements in accordance with the CFO Act.
- (5) Provide SOM Holding Activities and COMFISCS with current instructions for valuing and reporting SOM in NAVSEA financial statements.

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(6) Develop metrics and establish quarterly SOM financial reporting requirements.

b. NAVSEA, Assistant Deputy Commander for Fleet Logistics Support (SEA 04L). SEA 04L will:

(1) Develop and maintain command policy and program objectives for SOM management.

(2) Develop guidance documents to assist COMFISCS with the control and management of SOM assets.

(3) Monitor the management and administration of the SOM program.

(4) Monitor the conduct of the Annual Requirements Reviews (ARRs) required of all SOM inventories.

(5) Coordinate NAVSEA material management support requirements for SOM, and ensure they are compatible with NAVTAV objectives.

(6) Develop metrics and establish Quarterly SOM reporting requirements. Examples of reporting requirements include, but are not limited to, amounts of material received, issued for Fleet or local use and redistributed or transferred; material sent to DRMO and the extent to which annual reviews and validations are being performed.

c. Program Managers (NAVSEA PMs/ PEOs/Other PMs). PMs/PEOs, as owners of SOM, will:

(1) Ensure taskings to the SOM Holding Activities are in accordance with the provisions of this instruction.

(2) Ensure that all SOM assets are identified, tracked and monitored.

(3) Fund all aspects of SOM management including, but not limited to, reason code assignments, establishing retention levels, inventory management, warehousing, disposal, etc.

(4) During the ARR, ensure Reason Codes and Retention Levels are updated using known future program requirements and costs associated with retention of the material as a guide.

(5) Authorize disposal of any excess in accordance with subparagraph 7.i. above. Ensure that documentation of retention level calculations and disposal decisions is maintained.

(6) Assign a TM who will serve as the local point of contact to the SOM Holding Activity's designated COMFISCS SOM Manager.

d. Commanders, NSWC, NUWC and Managers of Other SOM Holding Activities. Commanders of Naval Surface and Undersea Warfare Centers and managers of other SOM Holding Activities will:

(1) Designate an individual to be responsible for SOM Management at each geographically separate SOM storage site. Recognizing that COMFISCS is the NAVSUP agent for management of NAVSEA SOM, the individual so designated will be an employee of the supporting regional FISC.

(2) Ensure that local management of SOM is specifically supported with a Tasking/Funding Document issued by the appropriate PM, which provides funding and specific guidelines for complying with the provisions of this instruction.

(3) Utilize ILSMIS as the preferred AIS for control, management, accountability, visibility and access of SOM. Any other AIS used to manage SOM must be capable of interfacing with ILSMIS. The AIS should include material held by Technical Codes and/or contractors providing storage accommodations on behalf of PMs.

(4) Ensure that a quarterly SOM Report is submitted to NAVSEA 04L no later than the 15th day of the month following the end of the quarter or as otherwise directed by SEA 04L.

(5) Ensure that documentation is maintained of reasonable efforts to contact PMs via TMs prior to declaring material excess due to lack of annual validation.

(6) Ensure that consolidated SOM financial data submissions are provided to SEA 01P, by the 6th of the new quarter, for input to the Navy's financial statements.

(7) Ensure that a program of local inventories and/or random spot checks has been instituted utilizing the guidance in reference (d).



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**Definitions**1. Memorandum Accounts:

Memorandum Accounts were previously directed to be used by local activities to control, manage and account for SOM. Local activities may continue to use these accounts, but their use will not be a requirement for this instruction. Below are the definitions for the accounts, if used:

a. Account 6021 consists of assets assigned to production jobs or other projects being performed at an activity that are scheduled to begin within 24 months. A customer order number must be assigned and carried on the inventory record to identify the material to a job.

b. Account 6022 consists of excess material from a completed job awaiting disposition or retention authorization from the PM. Unless economically warranted, material classified as 6022 should not remain in this account for more than 180 days after record establishment.

c. Account 6023 consists of material stored at an activity not related to the station's direct production workload. Material held in this account includes, but is not limited to, material resulting from: economic order quantity buys, life of type buys, Diminishing Manufacturing Sources and Material Shortages (DMSMS) buys; FMS; or material being procured, staged, kitted, and transshipped for a project at a shipyard or installation site. The holding activity receives direct funds for "custodial" (e.g. shipment, storage and inventory management ) services only.

2. Moving Average Cost (MAC):

MAC is the Department of Defense (DoD) preferred method for calculating the historical financial unit value of SOM assets. The formula for calculating MAC is:

$$\frac{(\text{current on hand quantity} \times \text{current MAC}) + (\text{new receipt quantity} \times \text{new cost})}{\text{current on hand quantity} + \text{new receipt quantity}}$$

3. Reason Code: A reason code is a one-character field in an AIS that provides rationale for retaining material.

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4. Retention Level: The retention level defines a recommended quantity of material to be held as SOM that was determined through either a policy decision or derived mathematically.
5. Sponsor: A Sponsor is a Program Manager (PM) that provides funding for, and authorizes the procurement or the staging of, material. Primarily, the PMs will belong to a NAVSEA Program Office or a Program Executive Office (PEO). However, a PM may also belong to other Navy Hardware Systems Commands, other military branches and agencies outside of DoD. The term "PM" is synonymous with Sponsor.
6. Sponsor Owned Material (SOM): SOM is programmatic material required to support PM mission requirements for production, life cycle maintenance and installation of systems and equipment consistent with their mission charter. The material usage may involve, but is not limited to, such tasks as: item fabrication, assembly, testing, manufacture, development, repair or research and development.
7. SOM Holding Activity: Any government or contractor site that has custody over SOM based upon a written agreement with a government sponsor is a SOM Holding Activity. For NAVSEA, most such activities are Warfare Centers or another In Service Engineering Agent (ISEA) activity.
8. Total Asset Visibility (TAV): Total asset visibility defines the capability to provide users with accurate and timely information concerning the location, movement, status and identity of material, including equipment and supplies, as well as personnel and other resources.

**Sponsor Owned Material Reason Codes**

<b>REASON CODE</b>	<b>CATEGORIES</b>
A	<u>Diminishing Manufacturing Sources and Material Shortages (DMSMS)</u> : DMSMS items are held because the commercial sector no longer produces them even though they are still needed by the user community. DMSMS items consist of hardware, electronic components, circuit card assemblies or other items, which have a defined Fleet demand, but are no longer procurable. DMSMS items have been set aside in quantities sufficient to support projected Fleet needs.
B	<u>Installation and Checkout (I&amp;C)</u> : Items used by an installation team to support new system or system upgrade installations and tests and to satisfy subsequent equipment or part failures that occur during the check out process. I&C items may also include Staged Availability Material, such as upgrade kits or hardware delivered under a production contract, which will be installed on ship or a shore facility at a later date.
C	<u>Lab Support Spares (LSS)</u> : LSS material is required to support Government or contractor owned and operated laboratory facilities.
D	<u>Initial Load Out Material</u> : Initial Load Out Material includes items required to provide onboard repair parts (OBRP) support, Maintenance Assistance Modules (MAMs), special tools and unique materials required for the on board support of systems and/or equipment being installed on new construction platforms or during the upgrade of existing systems or equipment.
E	<u>Non-Navy Equipment</u> : Items held on the basis of a memorandum of agreement with another Service are termed Non-Navy Equipment. It includes material to support systems and equipment for customers other than Navy.

REASON CODE	CATEGORIES
F	<p><u>Shipboard Systems &amp; Equipment for Repair and Return:</u> Consoles or subassemblies that are used to support a refurbishment or upgrade program by immediately replacing equipment removed from a ship. The removed equipment is then refurbished or upgraded and made ready (as a swing set) for the next ship.</p>
G	<p><u>Government Furnished Equipment (GFE):</u> GFE includes material required to satisfy specific contract requirements for development, production or production support. Material in this category is either being staged at a Navy activity for forwarding to a contractor's plant, or is in government custody at a contractor's plant.</p>
H	<p><u>Interim Support:</u> Replenishment spares and repair parts used to support installed operational systems before the NAVICP Material Support Date (MSD) has been reached are termed Interim Support material.</p>
I	<p><u>Foreign Military Sales (FMS):</u> FMS SOM is designated for the FMS Reserve Program. FMS designated as SOM does not include material earmarked for a specific FMS case.</p>
J	<p><u>Insurance Spares/Major Shore Spares:</u> Material unique to a specific system or equipment that has a low failure rate and is not provisioned but is critical to the operation of the equipment is termed an insurance/major shore spares. Examples include complete operational consoles or major subassemblies, which can be used to return a tactical system to full operation after a catastrophic failure.</p>
K	<p><u>Reutilization and Remanufacturing items:</u> These are internal components for complete consoles and subassemblies that have been removed from ships and are retained for reuse, as the supply of individual components becomes exhausted within the Navy. The assets are sequestered for use by specific programs.</p>

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REASON CODE	CATEGORIES
P	<p><u>Production &amp; Installation (P&amp;I) Material:</u> P&amp;I is material that is expected to be used by the Warfare Center in either a production effort at the installation or for an installation at another location.</p>
R	<p><u>Research and Development (R &amp; D):</u> R&amp;D includes materials, systems and equipments that are not included on a plant account record and are to be used in a Research and Development program.</p>
X	<p><u>Excess Material:</u> Material that is declared to be in excess of requirements and that is currently available may include the following sub-categories:</p> <p><u>Obsolete Material:</u> has no known users, is in a temporary holding category and in process of being disposed</p> <p><u>Redistribution Material:</u> includes residual material from operating units or support activities temporarily retained while being made available for screening and use by other DoD components. Documented, service approved procedures govern the management of redistribution material. Centralized visibility will be maintained.</p> <p><u>Unserviceable Material:</u> is physically damaged, condition code H (condemned) material in a temporary holding category; in the process of being disposed.</p>

## **SOM Annual Requirements Review (ARR) Guidelines**

In order to ensure that the SOM at NAVSEA field activities is limited to the minimum required for mission performance (i.e. providing production, installation, and life cycle maintenance for assigned systems and equipment), an ARR will be conducted for each system or equipment assigned. This review will consist of a meeting or an exchange of information among representatives from the Sponsor/Program Manager (PM) Office, local technical departments, and the local COMFISCS SOM Manager. The following paragraphs provide guidelines for conducting these reviews including guidance regarding the types of information to be considered, the decisions to be reached, and the documentation to be retained. The primary emphasis for these reviews is the validation of the Reason Code assigned to an item being stocked and the determination of a Retention Level for the item.

1. The ARR is a joint partnership endeavor between representatives from the holding activity's technical codes, its COMFISCS SOM Manager and the PM Office. The cooperation of all parties is necessary to provide the requisite information required to accurately determine the reason for holding the material (its "Reason Code") and the amount of material required for the planning threshold (its "Retention Level"). The planning threshold is normally considered to be a year; however, due to lead time of the items and/or production and installation schedules, the period may be longer. An example is a production job lasting over several years, but for which the material requirement can be broken into a series of incremental deliveries. Not all of the material is required to be on hand at the start of the program. There may, however, be a financial advantage to contracting up front, for the full quantity, with deliveries to be scheduled over the life of the program. Individual items on hand for four years without an issue will automatically be evaluated during the ARR as a candidate for redistribution or disposal. Those items to be retained must be so justified by a Memo for the Record from the office of the sponsor, which must also stipulate how much longer the material will be held.

2. Information about individual items that should be considered, where available, includes, but is not limited to:

- a. system application,
- b. annual usage by Reason Code,
- c. quantity on hand,
- d. other system applications,
- e. quantity in one equipment or component,
- f. availability of item in the Supply System and market place,
- g. acquisition lead time (approximation), plus
- h. alterations (including Engineering Change Proposals (ECPs) or Design Change Notices (DCNs)) pending or proposed.
- i. length of time since the last issue.

3. System/Equipment level information to be considered includes:

- a. number of systems installed,
- b. remaining life of system or equipment,
- c. ECPs or alterations that will change the system or equipment,
- d. special maintenance or modernization actions likely to change the requirement, and
- e. system/equipment phase-in or phase-out schedule.

Modernization information should be used to verify the accuracy of Fleet Modernization Program Management Information System (FMPMIS) or other similar alteration tracking systems.

4. The site COMFISCS SOM Manager and PM representative should jointly determine the number of assets required for each Reason Code based on the data in paragraphs 1 through 3 above. In addition, they should validate that the Reason Code assigned is still valid. The quantity required should be entered into the Retention Level field in the automated inventory management system being used.

5. Assets above the requirement for the remaining life of the program (taking into consideration a reasonable margin of safety for the program) should be considered for:

- a. transfer to other NAVSEA programs,
- b. offer to Supply System,
- c. offer to FMS programs,
- d. transfer to a designated residual material redistribution site, or

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- e. transfer to disposal, in accordance with DOD regulations.
6. These decisions must be documented by NIIN/Part Number and system. The data should be summarized as follows:
- a. system reviewed,
  - b. number of line items reviewed,
  - c. number of line items identified for retention and retention level established, and
  - d. number of line items identified for disposition as in paragraph 5 above.
7. The site COMFISCS SOM Manager and the PM representatives should both keep a record of the decisions made.
8. The site COMFISCS SOM Manager is required to provide a report of the SOM ARRs conducted during the quarter on the Quarterly SOM Report.