



DEPARTMENT OF THE NAVY

NAVAL SEA SYSTEMS COMMAND
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IN REPLY REFER TO

NAVSEAINST 4440.24C
4440
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NAVSEA INSTRUCTION 4440.24C

From: Commander, Naval Sea Systems Command
Subj: SPONSOR OWNED MATERIAL (SOM) MANAGEMENT
Ref: (a) NAVSUP P-437
Encl: (1) History and Definitions
(2) Sponsor Owned Material Reason Codes
(3) Pricing of Material

1. Purpose. This instruction assigns responsibility and defines procedures for control, management, visibility, accountability and access to Sponsor Owned Material (SOM). This instruction addresses management policies to accomplish the following:

a. Determining and retaining the levels of SOM required to support planned program requirements;

b. Reducing SOM inventory levels and eliminating unnecessary material;

c. Expanding SOM asset visibility and increasing accessibility and use of the inventories;

d. Using SOM to provide potential procurement offsets to fill material requirements;

e. Laying the groundwork for ultimately transferring Inventory Management of SOM, where practicable, to the Naval Supply Systems Command (NAVSUP).

2. Cancellation. NAVSEAINST 4440.24B is canceled.

3. Exceptions. This instruction excludes material under the cognizance of the Deputy Commander for Nuclear Propulsion (NAVSEA 08). Material managed under the Conventional Ammunition Inventory Management System (CAIMS) is also excluded. Navy Stock Account (NSA) or Appropriation Purchase Account (APA) reportable to an Inventory Control Point (ICP) are also excluded.

4. Background. This instruction updates the Naval Sea Systems Command (NAVSEA) procedures and guidance with regard to SOM. This material is used to support Program requirements for production, lifecycle maintenance and installation of systems and equipment consistent with the Program mission charters. Previously, procedures and responsibilities regarding SOM

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controls were not adequately defined, which resulted in large quantities of material that could not be matched to a defined requirement.

5. Action. Program Managers (PMs) in coordination with Warfare and Ordnance Centers will: determine SOM program requirements; provide visibility and accessibility of all SOM to the Naval Inventory Control Point (NAVICP); justify retained material inventories; and reduce quantities where practicable in accordance with this instruction.

6. Concurrence. The Commander, NAVSUP and Program Executive Offices (PEOs) concur with this instruction.

7. Scope. This instruction applies to material owned by NAVSEA Program Management Offices, Program Executive Offices, and other Department of Defense PMs and held by the Naval Ordnance Center (NOC), the Naval Surface Warfare Center (NSWC), and the Naval Undersea Warfare Center (NUWC).

8. History and Definitions. See enclosure (1).

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

a. Commanders of Warfare and Ordnance Centers will designate one person to be responsible for SOM.

b. All SOM, including material located at a Warfare Center or Ordnance Center contractors' site, must be identified, tracked, and monitored by the storing activity's SOM Manager.

c. SOM Management policies and procedures are the "safety net" for accounting and managing material at the Warfare and Ordnance Centers. If an item can not be readily identified and reported under another accounting or inventory system, (e.g. CAIMS or ICP) it will initially be managed as SOM, until the item's status and ownership is confirmed.

d. PMs will assign one Program/Technical Manager to act as SOM related point of contact to the activity's SOM Manager.

e. SOM will be: 1) recorded in an automated inventory control system; 2) assigned a Reason Code as defined in enclosure (2); 3) assigned a retention level appropriate for support of known program requirements; and 4) justified by maintaining documentation of the reason why material is required and how retention levels were calculated through locally defined procedures.

f. The use of standard NAVSEA Automated Information Business Systems as determined by the Command Information Officer (CIO) and in support of Joint Total Asset Visibility (JTAV) initiatives, are required for control, management, accountability, visibility and access of SOM.

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g. SOM will be made globally visible and accessible through logistics and inventory management systems in support of Joint Total Asset Visibility (JTAV) initiatives under the following guidelines: 1) the PM controls access to the material; and 2) the PM is compensated either with a credit or in-kind replacement, if SOM is released to the supply system.

h. An Annual Requirements Review (ARR) will be conducted on all SOM inventories. During the review, PMs will validate SOM Reason Codes and Retention Levels.

i. Items determined by the PM to be excess to defined requirements will either be redistributed or disposed according to the following order of precedence: 1) apply to another NAVSEA programmatic requirement; 2) offer to Supply System for credit, as outlined in reference (a); 3) offer for inter-service use; 4) offer to Foreign Military Sales programs; 5) transferred to a designated residual material redistribution site; or 6) disposed of the material in accordance with local policy and DOD regulations.

j. 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.

k. SEA 04 will report to SEA 01 the dollar value of SOM as of 30 September (end of the fiscal year) by 15 October for inclusion in the Command's Chief Financial Officer's Act financial statements.

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

a. NAVSEA, Deputy Commander for Logistics, Maintenance And Industrial Operations Directorate (SEA 04). SEA 04 will:

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

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

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

(4) Coordinate an Annual Requirements Review (ARR) of all SOM inventories.

(5) Coordinate NAVSEA automated information system support requirements for SOM, and ensure compatibility with NAVSEA Total Asset Visibility objectives.

(6) Develop metrics and establish SOM reporting requirements. Examples of reporting requirements include, but are not limited to, amounts of material issued for Fleet and

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local use, redistributed or transferred material; material sent to disposal and the extent to which annual reviews and validations are being performed.

(7) Provide to SEA 01 by 15 October each year a consolidated SOM report for inclusion within the Command's Chief Financial Officer's Act financial statements.

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

(1) Include SOM in the submission of financial statements in accordance with the Chief Financial Officer's Act.

(2) Provide SEA 04 with instructions and changes as they are made available from higher authority for reporting SOM in the Chief Financial Officer's Act financial statements.

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

(1) Ensure taskings to the Warfare and Ordnance Centers are in accordance with the provisions of this instruction.

(2) Ensure that all SOM assets, including those located at a Warfare Center or Ordnance Center contractors' sites are identified, tracked and monitored by a designated Warfare or Ordnance Center representative.

(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, validate and update Reason Codes and Retention Levels 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 9.i. above. Notify NAVICP of disposal decisions. Ensure documentation of retention level calculations and disposal decisions are maintained.

(6) Assign a Program/Technical Manager who will serve as the local point of contact to the Warfare or Ordnance Center's designated SOM Manager.

d. NAVSEA PMS 380, Foreign Military Sales (FMS). PMS 380 will:

(1) Review SOM assets for FMS requirements.

(2) For items no longer having United States Navy application or is excess to requirements, and for which the PM no longer has a requirement, accept ownership and warehouse SOM assets with FMS applicability.

e. Commander, NAVSUP. Commander of NAVSUP will:

(1) Establish and maintain a system interface to provide visibility and accessibility of SOM assets under the conditions of this instruction.

(2) Coordinate SOM inventory redistribution procedures with NAVSEA 04.

f. Commanders, NSWC, NUWC and NOC. Commanders of NSWC, NUWC, and NOC will ensure:

(1) One person is designated to be responsible for SOM Management at each subordinate command.

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

(3) Supply Departments use Automated Information Systems (AIS) for control, management, accountability, visibility and access of SOM that are determined by the CIO to support JTAV initiatives. The AIS should include material held by Technical Codes and/or contractors providing storage accommodations on behalf of PMs.

(4) A quarterly SOM inventory report is submitted to NAVSEA 04 no later than the 15th day of the month following the end of the quarter or as otherwise directed by SEA 04.

(5) SOM Managers price SOM as determined by the condition of the material, as specified in enclosure (3).

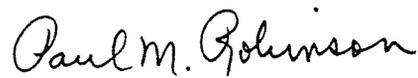
(6) Local activities document reasonable efforts to contact PMs prior to declaring material excess due to lack of annual validation.

h. Commander, NAVICP. Commander, NAVICP will:

(1) Refer requisitions against SOM in support of Fleet requirements.

(2) Use available SOM assets for procurement and repair offsets, and to support back order reviews.

(3) Record demand on requisitions when SOM assets are utilized.


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History and Definitions

A. History:

The Naval Audit Service 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 these problems associated with sponsor material.

The Commander, NAVSEA concurred with the Naval Audit Service and took aggressive actions to rectify the problems as outlined in this instruction. NAVSEA is also pursuing partnership initiatives with NAVSUP to ensure the most effective inventory management.

The ultimate NAVSEA corporate goal is to transfer Inventory Management of SOM, where practicable, to NAVSUP. However, the disparate composition and make-up of SOM does not support such a transfer. Total inventory management transfer would be counter productive to the best interests of NAVSEA, NAVSUP and the Navy.

This instruction initiates tighter controls on NAVSEA material and integrates it with other Navy and DOD resources. Logistical information is rapidly becoming a valued commodity, therefore, the visibility and accessibility of SOM are sound business decisions. By doing so, NAVSEA is taking proactive steps in implementing the principles and directives of the Navy's Total Asset Visibility (NAVTAV) and the Secretary of Defense's Joint Total Asset Visibility (JTAV) Programs. Utilizing the NAVTAV and JTAV principles through this instruction will create improved logistics information that will better enable policy makers to improve the overall performance of the Department of Defense logistics system in support of the war fighter.

B. 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:

SOM Memorandum Accounts:

Account 6021 consists of assets assigned to production jobs, SEATASKS, or other projects being performed at an activity which 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.

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.

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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., storage, inventory management, and shipment functions) services only.

C. Definitions:

1. Sponsor: 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 (e.g. SEA 91, SEA 92, SEA 03) 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 the Department of Defense (DOD). The term "PM" is synonymous with Sponsor.

2. Sponsor Owned Material (SOM): 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.

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

4. Retention Level: A recommended quantity of material to be held that was determined through either a policy decision or derived mathematically.

5. Joint Total Asset Visibility (JTAV): The capability to provide users with accurate and timely information concerning the location, movement, status and identity of units, personnel, equipment and supplies.

**Sponsor Owned Material
Reason Codes**

REASON CODE	CATEGORIES
A	<p><u>Diminishing Manufacturing Sources and Material Shortages (DMSMS), Reutilization and Remanufacturing, Economical Order Quantity (EOQ) buy and Life of Type (LOT) buy:</u> DMSMS is hardware, electronic components, circuit card assemblies or other items which have a defined Fleet demand, but are no longer procurable, and have been set aside in quantities sufficient to support projected Fleet needs. Reutilization and Remanufacturing items are internal components for complete consoles and subassemblies that have been removed from ships and are retained for reuse as supply of individual components becomes exhausted within the Navy. The assets are sequestered for use by specific programs. EOQ includes materials bought in larger than normal quantities to achieve economies of scale. LOT buys are executed when the manufacturer has notified the Navy that they will no longer be manufacturing the desired item.</p>
B	<p><u>Installation and Checkout (I&C):</u> Items used by the installation team to support new system or system upgrade installation and testing.</p>
C	<p><u>Lab Support Spares:</u> Material required to support Government or contractor owned and operated lab facilities.</p>
D	<p><u>Initial Load Out Material:</u> Required to provide onboard repair parts (OBRP), Maintenance Assistance Modules (MAMs), special tools, and unique materials for on board support of systems or equipment being installed on new construction platforms or during upgrade of existing systems or equipment.</p>
E	<p><u>Non-Navy Equipment:</u> Includes material to support systems and equipment for customers other than Navy. (Will be excluded from SOM Inventory Reports).</p>
F	<p><u>Shipboard Systems & Equipment for Repair and Return:</u> Consoles or subassemblies which 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> Material required to satisfy specific contract requirements for development, production, or production support.</p>

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REASON CODE	CATEGORIES
H	<u>Interim Support</u> : Spares used to support installed operational systems before the NAVICP Material Support Date (MSD) has been reached.
I	<u>Foreign Military Sales (FMS)</u> : Material designated for the FMS Reserve Program and material that will be transferred to NAVSEA PMS 380 to support foreign services. This does not include material for a designated FMS case.
J	<u>Insurance Spares/Major Shore Spares</u> : Material unique to a specific system or equipment, has a low failure rate and is not provisioned but is critical to the operation of the equipment. Such as a wiring harness or backplane. Complete operational consoles or major subassemblies, which can be used to return a tactical system to full operation after a catastrophic failure (e.g. fire).
K	<u>Staged Availability Material</u> : Complete upgrade kits or items, which will make up an upgrade kit as defined by an engineering change, ORDALT, etc. Hardware that was delivered under a Production Contract and which will be installed on ship or shore facilities at a scheduled later date.
P	<u>Production & Installation Material</u> : Material that is expected to be used in productive effort by the Warfare Center either in a production effort at the installation or for an installation at another location.
R	<u>Research and Development (R & D)</u> : Materials, systems, and equipment that are not included on a plant account record and are to be used in a Research and Development program.
X	<u>Excess Material</u> : Material declared to be in excess of requirements and is currently available.
Z	<u>Other</u> : Material being held for any other designated reason that does not fall into one of the above categories.

PRICING OF MATERIAL

PERCENTAGE OF ACTUAL PRICE VALUE	CONDITION	DESCRIPTION
100%	A	SERVICEABLE (issuable without qualifications)
100%	B	SERVICEABLE (issuable with qualifications; item has short shelf life expectancy of 3 to 6 months or has limited usefulness)
100%	C	SERVICEABLE (issuable with qualifications; item has short shelf life expectancy of 3 months remaining)
100%	D	SERVICEABLE (requires test, modification, disassembly or technical data marking)
25%-50%	E	UNSERVICEABLE (requires limited expense or effort to restore the item to a serviceable condition)
20%-40% or carcass value	F	UNSERVICEABLE (material requires an extensive amount of repair or the amount of repair required is unknown)
20%-40%	G	UNSERVICEABLE (the item requires parts that have been requisitioned)
10%	H	CONDEMNED (the item is unserviceable and is beyond economic repair; the item has an expired shelf life that cannot be extended)
10%	J	SUSPENDED (item is already on stock records and the previous condition code assigned to the item is suspect. Condition code "J" assets shall be reclassified before reporting the material to the sponsor)

PERCENTAGE OF ACTUAL PRICE VALUE	CONDITION	DESCRIPTION
10%	K	SUSPEND (material is returned to stock and is awaiting condition classification. Condition code "K" assets shall be reclassified before reporting to the sponsor)
100%	L	SUSPEND (material is held pending litigation or negotiation with vendors or common carriers. Material cannot be issued or shipped until the matter is resolved)
20%-40% or carcass value	M	UNSERVICEABLE (material that has been inducted into the repair cycle)
10%	P	UNSERVICEABLE assets are not economically repairable and are held for the reclamation of serviceable components or assemblies)
10%	R	UNSERVICEABLE (assets turned in by reclamation activities that do not have the capability to determine the condition of the material. Assets must be reclassified before they are reported)