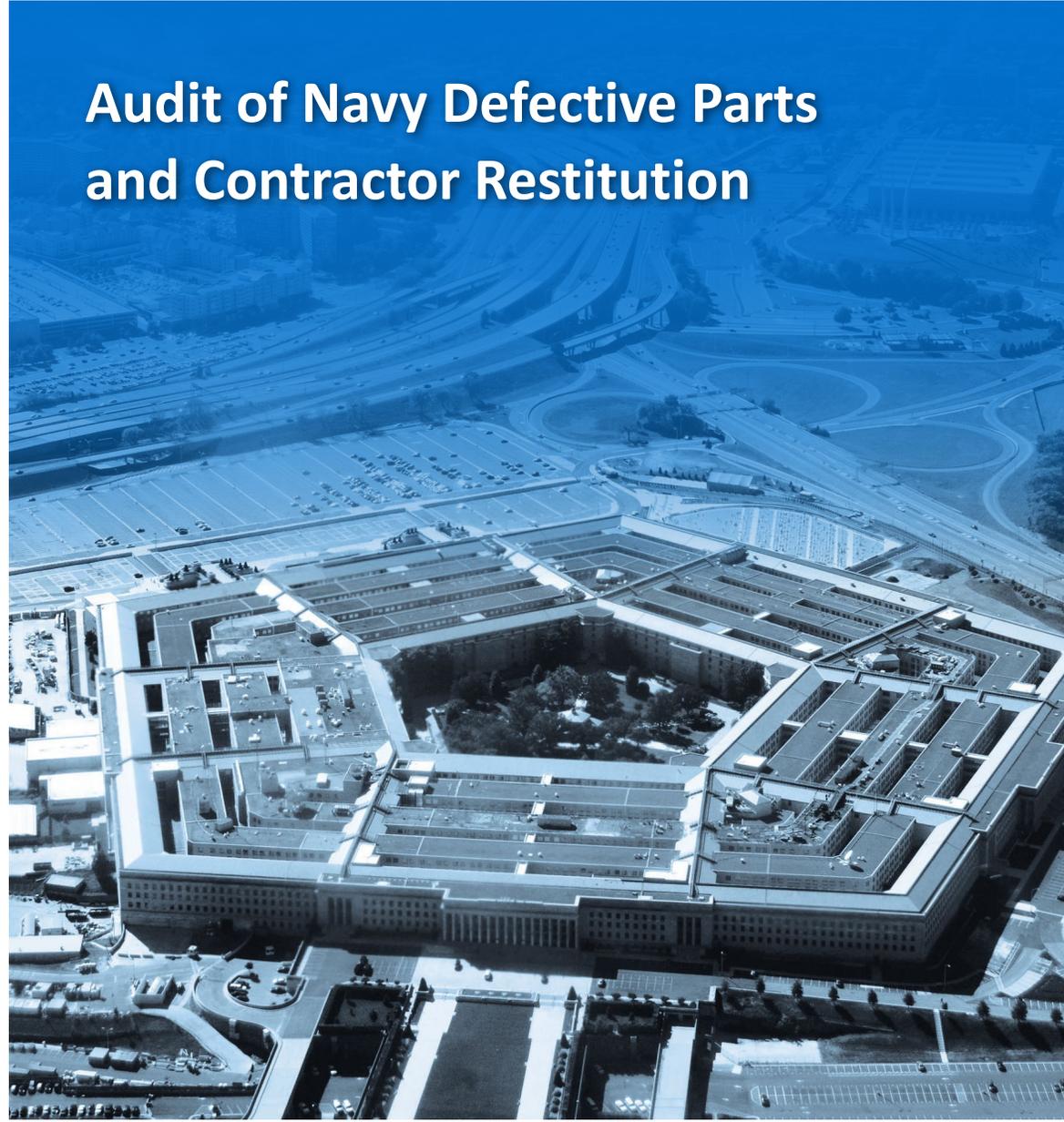


INSPECTOR GENERAL

U.S. Department of Defense

MARCH 17, 2026



Audit of Navy Defective Parts and Contractor Restitution

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





Results in Brief

Audit of Navy Defective Parts and Contractor Restitution

March 17, 2026

Objective

The objective of this audit was to assess the effectiveness of the Navy's efforts to remove from the DoD supply chain defective spare parts provided by contractors and to obtain restitution (reimbursement) from contractors that provide defective spare parts. This report is one in a series of two reports on DoD defective spare parts and contractor restitution.

Background

Navy maintenance organizations perform maintenance on Navy weapon systems, such as ships or aircraft. If contractors provide defective parts, Navy personnel generally use the DoD's process for reporting and resolving product quality deficiencies.

The DoD Joint Service Regulation specifies that corrective actions for product quality deficiency reports (PQDR) include actions to correct the defective parts reported and all other defective parts supplied.

The corrective actions include alert notifications, segregation, screening, and disposition of the defective product, as well as all actions that could impact restitution for the defective parts. For contractor caused defects, the contracting officer should seek cost-free repair, replacement, or reimbursement for defective parts.

Finding

Navy deficiency reporting personnel identified and removed defective parts from the DoD supply chain for most of the items we reviewed, and they generally obtained restitution in the form of repaired parts, replacement parts, or reimbursement (money). Specifically,

Finding (cont'd)

Navy deficiency personnel obtained restitution for 1,597 defective parts valued at \$6.2 million. However, they required an average of 78 days to provide evidence of the contractor restitution. Navy deficiency reporting personnel were unable to provide evidence of contractor restitution for 49 defective parts valued at \$2.6 million, resulting in questioned costs. The conditions occurred because the Navy lacked adequate guidance and controls over the contractor restitution portion of its process.

As a result, the Navy missed opportunities to hold contractors accountable and obtain restitution for defective parts. These shortcomings could negatively impact Navy supply operations if the Navy must purchase replacement parts or repair defective parts to maintain readiness.

Recommendations, Management Comments and Our Response

We recommend that the Commander, Naval Supply Systems Command, review the four stock numbers identified in this audit for which Navy personnel could not provide evidence of full restitution and take appropriate actions. We also recommend that the Deputy Assistant Secretary of Defense for Logistics:

- update Defense Logistics Management Standard 4000.25 to require Military Departments to develop a process for obtaining restitution from contractors to include key roles and responsibilities of the responsible contracting officer, preserving an audit trail, and establish recurring training; and
- direct Military Departments to develop and implement controls and oversight to ensure tracking of contractor restitution.

Management's comments addressed two recommendations, which are resolved and open, but only partially addressed another, which remains unresolved. We request that management provide additional comments within 30 days to fully address the recommendation to define key roles and responsibilities of responsible contracting officers.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Commander, Naval Supply Systems Command	None	1	None
Deputy Assistant Secretary of Defense for Logistics	2.a	2.b	None

Please provide Management Comments by April 17, 2026.

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – The DoD OIG verified that the agreed-upon corrective actions were implemented.



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

March 17, 2026

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND SUSTAINMENT
AUDITOR GENERAL, DEPARTMENT OF THE NAVY

SUBJECT: Audit of Navy Defective Parts and Contractor Restitution
(Report No. DODIG-2026-070)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

Of our three recommendations, we consider two recommendations resolved and open and one recommendations unresolved because the Military Deputy to the Deputy Assistant Secretary of Defense for Logistics, responding for the Deputy Assistant Secretary of Defense for Logistics, did not fully address it. We will close the resolved recommendations when management provides us documentation showing that all agreed upon actions to implement the recommendations are completed. We will track the unresolved recommendations until management has agreed to take actions that we determine to be sufficient to meet the intent of the recommendation and management officials submit adequate documentation showing that all agreed-upon actions are completed.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. For the unresolved recommendation, within 30 days please provide us your response concerning specific actions in process or alternative corrective actions proposed on the recommendations. For the resolved recommendations, within 90 days please provided us your response concerning specific actions in process or completed on the recommendations. Send your unclassified responses to [REDACTED].

If you have any questions, please contact me at [REDACTED].

A handwritten signature in black ink, reading "Carmen J. Malone", is positioned above the typed name.

Carmen J. Malone
Assistant Inspector General for Audit
Acquisition, Contracting, and Sustainment

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Introduction

Objective

The objective of this audit was to assess the effectiveness of the Navy's efforts to remove from the DoD supply chain defective spare parts provided by contractors, and to obtain restitution (reimbursement) from contractors that provide defective spare parts.¹ This report is one in a series of two reports on DoD defective spare parts and contractor restitution.² The first audit focused on the Air Force, and this audit focused on the Navy Systems Commands—Naval Supply Systems Command (NAVSUP), Naval Air Systems Command (NAVAIR) and Naval Sea Systems Command (NAVSEA).³ See Appendix A for our scope, and methodology, and a summary of prior coverage.

Background

Navy maintenance organizations perform maintenance on Navy weapon systems, such as ships or aircraft. To perform the necessary work, Navy maintenance organizations from NAVAIR and NAVSEA order parts from the DoD supply chain. For Navy-managed items, Navy contracting personnel purchase parts from contractors. If contractors provide defective parts, Navy personnel generally use the DoD's process for reporting and resolving product quality deficiencies.

DoD Product Quality Deficiency Reporting Guidance

The DoD Joint Service Regulation implements DoD policy for reporting of inter-Service product quality deficiency data.⁴ According to its purpose statement, the DoD Joint Service Regulation “[e]stablishes policy, assigns responsibility and implements procedures for a standard DoD Product Quality Deficiency Reporting method to identify, report, and resolve conditions affecting the warfighter.” The Regulation specifies that Product Quality Deficiency Reports (PQDRs) provide feedback on the quality of parts issued through the DoD supply chain. DoD customers submit PQDRs if new or newly reworked government-owned

¹ Reimbursement may be in the form of repaired parts, replacement parts, or money.

² We initially intended to issue a series of three reports addressing Army, Navy, and Air Force processes. However, because our recommendations are addressed to the Deputy Assistant Secretary of Defense for Logistics, they will also apply to the Army. Therefore, we will not issue a third report addressing the Army process.

³ We did not include NAVSEA in our review because it processed less than 5 percent of the Product Quality Deficiency Reports (PQDRs) in our audit universe of Navy System Commands, and those PQDRs represented only 1 percent of the universe value; however, we reviewed the NAVSEA deficiency reporting guidance.

⁴ DoD Joint Service Regulation: DLA Regulation 4155.24/Army Regulation 702-7/Secretary of the Navy Instruction 4855.21/Air Force Instruction 21-115/Defense Contract Management Agency DCMA-INST-1102, “Product Quality Deficiency Report Program (Inter-Service Product Quality Deficiency Report),” August 1, 2022 (Incorporating Change 4).

parts are determined not to fulfill their expected purpose, operation, or service. The Regulation also specifies that DoD Components will investigate PQDRs to determine the cause of the deficiency.

The DoD Joint Service Regulation specifies that corrective actions for PQDRs include those actions taken to correct the defective parts reported and all other defective parts supplied. The corrective actions include alert notifications, segregation, screening, and disposition of the defective product, as well as all actions that could impact restitution for the defective parts. For contractor-caused defects, the contracting officer should seek cost-free repair, replacement, or reimbursement for the defective parts.⁵

DoD Policy to Obtain Contractor Restitution

DoD acquisition policy states that if nonconforming parts are discovered after acceptance, the defect appears to be the fault of the contractor, any warranty has expired, and if no other contractual remedies exist, the contracting officer must notify the contractor in writing of the nonconforming parts and request that the contractor repair or replace the parts. The contracting officer may accept consideration (payment) if offered.⁶

Navy Product Quality Deficiency Guidance and Reporting

NAVSUP Headquarters is the process owner for the Navy deficiency reporting program and is responsible for the issuance of Navy deficiency reporting policy. NAVSUP Headquarters issues deficiency reporting guidance to support the DoD Joint Service Regulation.⁷ NAVSUP manages supply chains that provide material for Navy aircraft, surface ships, submarines and their associated weapon systems and provides centralized inventory management for Navy's non-nuclear ordnance stockpile.

NAVSUP provides a wide range of base operating and waterfront logistics support services, coordinates material deliveries, contracts for supplies and services, and provides material management and warehousing services. NAVSUP created procedures for deficiency reporting within the Product Data Reporting and Evaluation Program (PDREP) in which personnel document PQDR processing

⁵ In September 2025, the Navy informed us that DLA Regulation 4155.24 was to be replaced with Defense Logistics Management Standards (DLM) 4000.25, Volume 2, Chapter 24, in August 2025. However, DLA Regulation 4155.24 was active during the period our sample items were investigated and was considered the applicable criteria during this audit.

⁶ Defense Federal Acquisition Regulation Supplement Part 246, "Quality Assurance," Subpart 246.4, "Government Contract Quality Assurance," Section 246.407, "Nonconforming Supplies or Services."

⁷ Assistant Secretary of the Navy (Research, Development and Acquisition) memorandum, "Assignment as the Product Quality Deficiency Reporting Process Owner," March 31, 2004.

and resolution results. PDREP enables the reporting, collection, and use of supplier performance information and promotes continuous process improvement to increase material readiness by reducing material defects entering the supply chain.

NAVAIR provides full life-cycle support of naval aviation aircraft, weapons, and systems operated by Sailors and Marines. This support includes systems engineering, acquisition, test and evaluation, repair and modification, and logistics support. NAVAIR personnel document PQDR processing and resolution results in the Joint Deficiency Reporting System (JDRS), and the system subsequently transfers the information electronically to PDREP.⁸ NAVAIR also issued Navy deficiency reporting policy for NAVAIR organizations.⁹

NAVSEA designs, builds, delivers, and maintains ships, submarines, and systems for the United States Navy. NAVSEA personnel document PQDR processing and resolution results in PDREP. NAVSEA also issued deficiency reporting policy for the NAVSEA organization.¹⁰

Navy Product Quality Deficiency Reporting Process

NAVSUP and NAVAIR organizations use PQDRs to report product defects that result from deficiencies in design, workmanship, specifications, material, or other nonconforming conditions. The Navy deficiency reporting process primarily focuses on the following roles.

- **Originator**—a Navy user (customer), such as a Navy maintenance organization, that discovers the defective part and initiates the PQDR. In some cases, the originator provides the defective part (an exhibit) for Government or contractor investigation.
- **Screening Point**—a designated Navy activity (command), such as NAVAIR or NAVSUP, that reviews the PQDR submitted by the originator for validity, accuracy, and completeness of required information and identifies and transmits the PQDR to the proper Navy Action Point.
- **Action Point**—a designated activity, such as a NAVAIR or NAVSUP Weapon System Program Office, that is responsible for managing a PQDR investigation.¹¹
 - As part of a PQDR investigation, Action Point personnel are responsible for determining whether the contractor provided additional defective parts on the same contract. The personnel

⁸ JDRS provides for deficiency reporting and resolution management across the Aeronautical Enterprise. JDRS is a cross-service, web-enabled automated tracking system designed to initiate, process, and track deficiency reports from Service members through the investigation process.

⁹ NAVAIR Standard Work Package 6412-001, "Product Quality Deficiency Report (PQDR) Screening and Investigation," April 10, 2020.

¹⁰ NAVSEA Instruction 4855.39A, "Implementation of the Product Data Reporting and Evaluation Program," November 13, 2020.

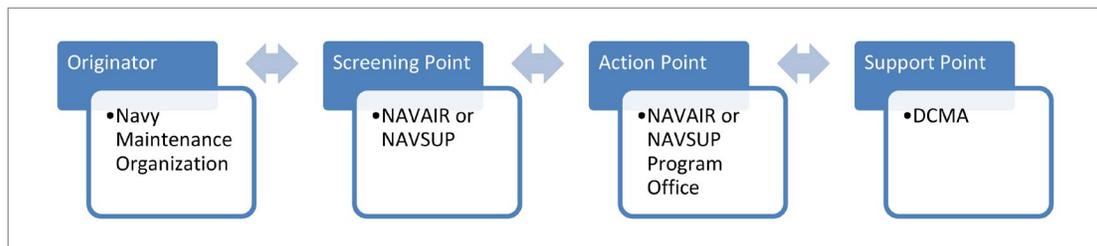
¹¹ This audit focused on PQDRs that had a NAVAIR or NAVSUP Screening Point and Action Point identified in PDREP.

will screen Navy inventories and alert other DoD customers who may have received the defective parts to ensure that the defective parts are removed from the DoD supply chain.

- Navy personnel should perform stock screenings if they determine that the defective parts identified on the PQDR are not an isolated incident and if contractors could have provided additional defective parts.
- **Support Point**—a designated DoD organization, such as the Defense Contract Management Agency (DCMA), that assists the Action Point in the PQDR investigation upon request.¹²

Figure 1 identifies examples of the DoD organizations that fulfilled the roles above for the PQDRs reviewed during this audit.

Figure 1. Examples of DoD Organizations Involved in Processing Navy PQDRs



Source: The DoD OIG.

Navy Defective Parts Reviewed

We used nonstatistical methods and reviewed 21 stock numbers with 1,649 defective parts associated with 13 weapon systems and end items.¹³ See Appendix A for details on the audit universe and sampling methodology.

¹² The DCMA provides contract administration services for the DoD, other Federal organizations, and international partners and is involved in the acquisition process from pre-award to sustainment.

¹³ A stock number (technically referred to as a national stock number) is a 13-digit numeric code that DoD organizations use to manage inventory items. We summarized our results by stock number. However, one or more defective parts could be reported for each stock number. See Appendix C for a list of the 13 weapon systems and end items reviewed.

Finding

The Navy Identified and Removed Defective Parts and Generally Obtained Restitution but Did Not Maintain Audit Trails

Navy deficiency reporting personnel identified and removed defective parts from the DoD supply chain for most of the items we reviewed and generally obtained restitution. Specifically, Navy personnel obtained restitution for 1,597 defective parts valued at \$6.2 million. However, they required an average of 78 days to provide evidence of the contractor restitution. Navy personnel could not provide evidence of contractor restitution for 49 defective parts valued at \$2.6 million, resulting in questioned costs.¹⁴ These conditions occurred because the Navy lacked adequate guidance and controls over the contractor restitution portion of its deficiency reporting process.

As a result, the Navy missed opportunities to hold contractors accountable and obtain restitution for defective parts. These shortcomings could negatively impact Navy supply operations if the Navy must purchase replacement parts or repair defective parts to maintain readiness.

The Navy missed opportunities to hold contractors accountable and obtain restitution for defective parts.

Navy Deficiency Reporting Personnel Identified and Removed Defective Parts from the DoD Supply Chain

Navy deficiency reporting personnel removed defective parts from the DoD supply chain for most of the items we reviewed. Specifically, for 20 of 21 sampled stock numbers, the personnel either performed stock screenings and identified additional defective parts or had a valid reason for not performing stock screenings. For one stock number, the personnel should have performed a stock screening.

Navy guidance did not specify how to proceed when an investigation indicated that a defect is not isolated and may exist in a significant number of parts.¹⁵ Further, Navy guidance did not address notifying command supply functions of the defect and directing a stock screening for suspect parts, as a result, the Navy

¹⁴ See Appendix B for a summary of potential monetary benefits.

¹⁵ NAVSUP Instruction 4855.7, "Product Quality Deficiency Reporting and Defective Material Summary," July 25, 2016, was active during the period our sample items were investigated and was updated by NAVSUP Instruction 4855.7A, "Product Quality Deficiency Reporting and Defective Material Summary," March 17, 2023.

did not perform a stock screening for one stock number reviewed. Specifically, in May 2021, the Navy identified a defective starter motor used on the CH-53E Super Stallion helicopter. The deficiency investigation determined that an alignment pin on a subcontractor provided sub-component was installed in an incorrect position, preventing installation of the starter motor. The subcontractor notified the prime contractor that of the 69 sub-components shipped, 47 were known to be defective, and the remaining 22 parts were potentially defective. Figure 2 shows the CH-53E Super Stallion helicopter.



Navy personnel originally submitted 18 PQDRs and returned the defective starter motors to the contractor for repair; however, they did not perform a stock screening or notify all supply points to look for the defective starter motor. Instead, they notified only the Navy and Marine Corps repair facilities and engineering support activities that additional stock may be defective. As a result of that notification, Navy and Marine Corps personnel found an additional 20 defective starter motors that were not placed on PQDRs as required but were returned to the contractor for repair. While Navy and Marine Corps personnel identified 38 defective starter motors throughout the process, the prime contractor had delivered 54 starter motors at the time the deficiency investigation was closed.

As a result of our audit, Navy personnel placed the starter motor on the May 2025 Defective Material Summary Notice issued on May 31, 2025. The notice instructed supply points to screen all stock for the defective starter motor and notify NAVSUP of any additional defective starter motors found. On June 16, 2025, Navy personnel submitted a PQDR citing the Defective Material Summary Notice and identified an additional nine defective starter motors.

This audit focused on PQDRs closed between June 1, 2020, and May 31, 2023, that followed prior Navy policy.¹⁶ In March 2023, the Navy updated policy and addressed defective material notification standards.¹⁷ We did not make any recommendations regarding this matter because the Navy:

- updated policy, and deficiency reporting personnel generally followed Navy deficiency reporting guidance;
- addressed our request to screen for the defective part; and
- removed defective parts from the DoD supply chain.

Navy Deficiency Reporting Personnel Did Not Always Maintain a Supporting Audit Trail to Document the Receipt of Contractor Restitution

Navy deficiency reporting personnel ultimately provided sufficient evidence that contractors provided restitution for 1,597 defective parts, valued at \$6.2 million. However, Navy personnel

took an average of 78 days to provide the evidence, primarily because they did not maintain an audit trail and had to coordinate within the Navy or with other DoD agencies and contractors to obtain it.¹⁸

Navy personnel took an average of 78 days to provide the evidence, primarily because they did not maintain an audit trail.

For our sampled stock numbers, we requested Navy personnel supply evidence that contractors provided restitution (repaired parts, replacement parts, or monetary reimbursement) for defective parts.¹⁹ Restitution evidence generally consisted of Government acceptance or receiving reports or similar documentation showing that the contractor provided repaired or replacement parts. This information was generally not readily available to Navy deficiency reporting personnel, and they often had to obtain the evidence from the DCMA and contractors.

¹⁶ NAVSUP Instruction 4855.7.

¹⁷ NAVSUP Instruction 4855.7A, "Product Quality Deficiency Reporting and Defective Material Summary," March 17, 2023.

¹⁸ The average number of days includes the time that we invested to make multiple requests and review responses from Navy personnel that included insufficient evidence of contractor restitution, which resulted in the need for additional data requests and time to review the responses.

¹⁹ For all sampled stock numbers requiring restitution, it was in the form of either repaired or replacement parts.

Navy deficiency reporting personnel initially provided insufficient evidence, such as email correspondence, JDRS data, or other system screenshots. After requests for more sufficient, appropriate evidence, they ultimately were unable to provide it.

For example, Navy personnel identified a defect in four electrical synchronizers, with a value of almost \$1.4 million, for the Seasparrow Missile System. The deficiency investigation concluded that a subcontractor incorrectly machined the electrical synchronizers, and the contractor was responsible. Figure 3 shows the Seasparrow Missile being launched from a ship at sea.



Figure 3. Seasparrow Missile Launched from a Ship at Sea
Source: The DoD.

We sent our initial data request to Navy deficiency reporting personnel on September 10, 2024, requesting evidence of contractor restitution for the four electrical synchronizers. Navy deficiency reporting personnel did not have evidence of contractor restitution and had to contact the DCMA for receiving reports showing that the electrical synchronizers were repaired and returned to the Navy. The Navy provided the receiving documents on February 3, 2025, which was 146 days after our original data request.

Navy Deficiency Reporting Personnel Did Not Always Provide Evidence of Contractor Restitution for Defective Parts

Navy deficiency reporting personnel did not provide evidence of contractor restitution for 49 defective parts valued at \$2.6 million. (See the Table for a list of parts.) For example, the Navy procured main shaft seal assemblies for the *Virginia*-class nuclear submarine valued at \$792,712 each. Figure 4 shows the *Virginia*-class submarine.



Figure 4. The USS Virginia Submarine
Source: The DoD.

The deficiency investigation found that material was flaking off the item's surface, and the body of the item had gouges that affected the fit. The main shaft seal was sent to the contractor to be repaired, but the Navy was not able to provide support that they received the repaired part from the contractor. The Navy contacted the DCMA and the contractor to obtain support for restitution; however, as of April 14, 2025, they had not provided any evidence that the repaired main shaft seal assembly was received by the Navy.

Table. List of Four Weapon Systems or End Items and Dollar Value with Unsupported Contractor Restitution

Weapon System or End Item	Item Description and Stock Number	No. of Defective Parts Lacking Restitution	Dollar Value of Unsupported Contractor Restitution
CH-53E Super Stallion	Engine Start Motor Starter, Engine, Air Turbine 2995-01-360-8223	38	\$1,011,946
F/A-18	Missile Launcher 1440-01-534-8640	1	18,640
F-5 Fighter Jet	Afterburner Casing 2845-01-480-1741	9	779,857
Virginia-Class Submarine (SSN)	Main Shaft Seal Assembly Seal Assembly, Main Shaft 2010-01-515-7709	1	792,712
Total		49	\$2,603,155

Source: The DoD OIG.

Because of the lack of contractor restitution, the NAVSUP Commander should review the four stock numbers identified in this audit for which Navy personnel could not provide evidence of full restitution. If the review determines that the contractor did not provide restitution and the Navy can pursue restitution under contract terms, the NAVSUP Commander should require the applicable Navy contracting officer to pursue the restitution from the contractor that provided defective parts.

The Navy Lacked Adequate Guidance and Controls Over the Contractor Restitution Portion of Its Deficiency Reporting Process

Navy deficiency reporting guidance does not address the process of tracking and obtaining contractor restitution for defective parts. The guidance does not address the key roles and responsibilities for obtaining contractor restitution nor does it include involving the responsible contracting officer in the process as specified in the Defense Federal Acquisition Regulation Supplement and the DoD Joint Service Regulation. Additionally, while the Joint Service Regulation states the responsible contracting officer should seek restitution, it does not clearly define the key roles and responsibilities of the contracting officer and their required involvement in the process. This lack of adequate guidance contributed to the Navy being unable to

support \$2.6 million in contractor restitution for defective parts and requiring an average of 78 days to provide supporting evidence for the contractor restitution it obtained on 16 of 21 sample items. The DoD OIG performed an audit on Air Force defective parts and contractor restitution in which the DoD OIG determined that the Air Force lacked adequate guidance and controls of the contractor restitution portion of its deficiency reporting process as well.²⁰

Because Navy deficiency reporting guidance did not address contractor restitution and the previous DoD OIG audit identified the same issue within the Air Force, the Deputy Assistant Secretary of Defense for Logistics should update deficiency reporting guidance to require the Military Departments to develop a process for obtaining restitution from contractors that provide defective parts. The guidance should clearly define key roles and responsibilities of contracting officers and require their involvement in the process. The guidance should also require the Military Departments to preserve an audit trail to support the receipt of restitution and specify the type of documentation needed. In addition, the update should require the Military Departments to establish a program to provide recurring training to deficiency reporting personnel and monitor compliance with the requirement.

Before this audit, we conducted DoD-wide research on the process for reporting product quality deficiencies and found that some DoD organizations developed a process for tracking contractor restitution for defective parts. Navy personnel stated that they kept PQDRs open until parts were returned. However, Navy personnel did not have a methodology to track contractor restitution and stated that they depended on the DCMA to ensure that all material was returned and restitution was completed. The DoD OIG audit on Air Force defective parts and contractor restitution also determined that the Air Force did not have a methodology to track outstanding contractor restitution.

Navy personnel did not have a methodology to track contractor restitution and stated that they depended on the DCMA to ensure that all material was returned and restitution was completed.

Because Navy and Air Force deficiency reporting personnel did not have a methodology to track outstanding contractor restitution, the Deputy Assistant Secretary of Defense for Logistics should develop and implement controls and oversight mechanisms to ensure tracking of contractor restitution from the completion of the PQDR investigation through the receipt of restitution.

²⁰ Report No. DODIG-2024-123, "Audit of Air Force Defective Parts and Contractor Restitution," August 27, 2024.

Conclusion

Navy deficiency reporting personnel followed Navy deficiency reporting guidance and removed defective parts from the DoD supply chain and generally obtained contractor restitution. However, the Navy could not readily support whether restitution was received for \$2.6 million in defective parts, resulting in questioned costs and missed opportunities to hold contractors accountable and obtain restitution for defective parts. These shortcomings could negatively impact Navy supply operations if the Navy must purchase replacement parts or repair defective parts to maintain readiness.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Commander, Naval Supply Systems Command, review the four national stock numbers identified in this audit for which Navy personnel could not provide evidence of full restitution. If the review determines that the contractor did not provide restitution and the Navy can pursue restitution under the contract terms, then the Commander should require the applicable Navy contracting officer to pursue restitution from the contractor that provided defective parts. Also, the Commander should comment on the \$2.6 million in questioned costs related to defective parts for which the Navy was unable to provide evidence of contractor restitution. If the Commander disagrees with the questioned costs, identify the amount and the reason.

Commander, Naval Supply Systems Command Comments

The Assistant Commander for Supply Chain Performance and Integration, responding for the NAVSUP Commander, agreed with the recommendation and stated that they would complete an investigation into the four national stock numbers and associated costs no later than 12 months from February 13, 2026.

Our Response

Comments from the Assistant Commander addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that NAVSUP investigated the four national stock numbers and associated costs and took appropriate action based on that investigation.

Recommendation 2

We recommend that the Deputy Assistant Secretary of Defense for Logistics:

- a. **Update Defense Logistics Management Standards DLM 4000.25, Volume 2, Chapter 24 “Product Quality Deficiency Reporting,” to require Military Departments to develop a process for obtaining restitution from contractors that provide defective parts. The guidance should clearly define key roles and responsibilities of responsible contracting officers and require their involvement in the process and require the Military Departments to:**
 - **preserve an audit trail to support the receipt of restitution and specify the type of documentation needed, and**
 - **establish a program to provide recurring training to deficiency reporting personnel and monitor compliance with the requirement.**

Deputy Assistant Secretary of Defense for Logistics Comments

The Military Deputy to the Deputy Assistant Secretary of Defense for Logistics, responding for the Deputy Assistant Secretary of Defense for Logistics, partially agreed with the recommendation to require Military Departments to develop a process for obtaining restitution from contractors that provide defective parts; agreed to fully address the intent of an audit trail to support the receipt of restitution, not later than October 2026; and agreed with the establishment of a program to provide recurring training and to monitor compliance with the training requirement.

Our Response

Comments from the Military Deputy partially addressed the recommendation; therefore, the recommendation is unresolved. The Military Deputy agreed to fully address the intent of an audit trail to support restitution and the establishment of a program to provide recurring training, and monitoring compliance with the training requirement. However, the Military Deputy’s comments did not address our recommendation to clearly define key roles and responsibilities of responsible contracting officers, requiring their involvement in the PQDR process. DLM 4000.25, Volume 2, Chapter 24, requires that when the investigation confirms the deficiency was the contractors responsibility, the Action Point is to provide investigation results to the contracting officer responsible for the contract so that they may seek cost free repair, replacement, or reimbursement for the deficient materiel. However, the DLM does not clearly define the key roles

and responsibilities of the contracting officer and their required involvement in the process. As noted in the report, we identified a lack of adequate guidance and controls over the contractor restitution portion of the deficiency reporting process.

We request that within 30 days of this report, the Military Deputy describe the specific actions that the Deputy Assistant Secretary of Defense for Logistics will take to define clear roles and responsibilities of responsible contracting officers and require their involvement in the process.

- b. Require Military Departments to develop and implement controls and oversight to ensure tracking of contractor restitution from the completion of the investigation of the report on deficiencies in product quality through the receipt of restitution.**

Deputy Assistant Secretary of Defense for Logistics Comments

The Military Deputy to the Deputy Assistant Secretary of Defense for Logistics agreed with the recommendation and stated that they would partner with the Defense Logistics Agency in refining content in the next Defense Logistics Management Standards DLM 4000.25, Volume 2, Chapter 24 update for PQDR processes, not later than October 2026.

Our Response

Comments from the Military Deputy addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Deputy Assistant Secretary of Defense for Logistics has required the Military Departments to develop and implement controls and oversight to ensure tracking of contractor restitution from the completion of the investigation of the report on deficiencies in product quality through the receipt of restitution.

Appendix A

Scope and Methodology

We conducted this performance audit from July 2024 through September 2025 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.

We reviewed the following criteria.

- Defense Federal Acquisition Regulation Supplement Part 246, “Quality Assurance,” Section 246.4, “Government Contract Quality Assurance,” Clause 246.407, “Nonconforming Supplies or Services”
- DoD Joint Service Regulation: DLA Regulation 4155.24/Army Regulation 702-7/Secretary of the Navy Instruction 4855.C/Air Force Instruction 21-115/Defense Contract Management Agency Instruction 305, “Product Quality Deficiency Report Program (Inter-Service Product Quality Deficiency Report),” September 19, 2018
- DoD Joint Service Regulation: DLA Regulation 4155.24/Army Regulation 702-7/Secretary of the Navy Instruction 4855.21/Air Force Instruction 21-115/Defense Contract Management Agency DCMA-INST-1102, “Product Quality Deficiency Report Program (Inter-Service Product Quality Deficiency Report),” August 1, 2022 (Incorporating Change 4)
- Secretary of the Navy Instruction 4855.3D, “Product Data Reporting and Evaluation Program,” December 21, 2018
- Secretary of the Navy Instruction 4855.7A, “Product Quality Deficiency and Defective Material Summary,” March 17, 2023

We interviewed and conducted data calls with officials from the following DoD organizations to determine whether the Navy had effective controls and procedures to identify and remove from the DoD supply chain defective parts provided by contractors and to obtain restitution from the contractors that provided the defective parts.

- NAVSUP
- NAVAIR
- NAVSEA (PDREP Program Office)

With the assistance of Navy deficiency reporting personnel, we obtained and analyzed a data file of PDREP-processed Navy PQDRs closed between June 1, 2020, and May 31, 2023. We filtered the data file to include only PQDRs that identified a Navy organization as the Action Point. In addition, we filtered the data file to include only PQDRs identified in PDREP as contractor noncompliance, and the corrective action identified that the contractor was responsible to provide restitution. Our analysis resulted in 273 PQDRs, valued at \$45.8 million, associated with 208 unique stock numbers.

From the universe of 208 unique stock numbers, we used nonstatistical methods and sampled 21 national stock numbers with one or more PQDRs. For the 21 stock numbers, we reviewed 1,649 defective parts valued at \$8.8 million.²¹ The 21 sampled stock numbers also included 5 stock numbers with 14 defective parts that did not require restitution. For these items, Navy deficiency personnel provided evidence that the Navy did not require contractor restitution, so we did not include them in our restitution summary results. Our results are based on a nonstatistical sampling methodology and therefore cannot be used to calculate estimates (projections) for the population.

Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed whether the Navy had effective controls and procedures to identify and remove from the DoD supply chain defective parts provided by contractors and to obtain restitution from the contractors that provided the defective parts. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Use of Computer-Processed Data

We used computer-processed data from JDRS and PDREP; however, we used data from only JDRS to select three sample items during the planning phase. With the assistance of Navy deficiency reporting personnel, we obtained a data file that contained a universe of PDREP-processed PQDRs closed between June 1, 2020, and May 31, 2023. We used the file to select a nonstatistical sample of stock numbers with defective parts for which the PQDR investigation found the contractor to be

²¹ We found the dollar values in JDRS and PDREP to be unreliable, so for our sampled stock numbers we used the item value from the contract the DoD used to purchase the item for all but one sample item, where we used the WebFLIS price.

at fault and the contractor agreed to provide restitution. To test the reliability of the data, we interviewed Navy deficiency reporting personnel and reviewed supporting data.

We determined that with the exception of the dollar values, the PDREP data were sufficiently reliable for sampling and reviewing selected PQDRs and determining whether Navy personnel had effective controls and procedures to identify and remove from the DoD supply chain defective parts provided by contractors and to obtain restitution from the contractors that provided the defective parts.

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report discussing DoD PQDRs and contractor restitution.

Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

DoD OIG

Report No. DODIG-2024-123, “Audit of Air Force Defective Parts and Contractor Restitution,” August 27, 2024

The DoD OIG determined that Air Force deficiency reporting personnel identified and removed defective parts from the DoD supply chain and generally obtained restitution. Additionally, the Air Force did not seek restitution for 45 defective C-130J Super Hercules aircraft parts valued at \$5.9 million.

Appendix B

Summary of Potential Monetary Benefits

Recommendations	Type of Benefit*	Amount of Benefit
1	Questioned Costs – Recoverable.	\$2.6 million in unsupported contractor restitution for defective parts

* Potential Monetary Benefits are funds put to better use or questioned costs
 Source: The DoD OIG.

The Inspector General Act of 1978, as amended, defines questioned costs as costs that auditors question because of alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds. Questioned costs might also be costs not supported by adequate documentation at the time of audit, or unnecessary or unreasonable fund expenditure for an intended purpose.

Appendix C

Weapon Systems and End Items Reviewed and Number of Defective Parts Identified on PQDRs

Weapon System or End Item	No. of Defective Parts Identified on PQDRs	No. of Defective Parts Requiring Restitution
Various Submarine Parts	1530	1530
Guided Missile Submarine (SSGN)	45	35*
CH-53E Super Stallion	18	38*
F/A-18	17	17
F-5 Fighter Jet	15	15
Escape & Rescue System	4	4
Seasparrow Missile System (NSSMS)	4	4
Guided Missile Submarine (SSGN) and Ballistic Missile Submarine (SSBN)	3	3
MH-60R	2	0*
Propulsion System Test Device – Modernized (PSTD-M)	2	2
C-130 & H-60 Navy Variants	1	0*
CV-22 Osprey	1	0*
Virginia-Class Submarine (SSN)	1	1
Total	1,643	1,649

* Five stock numbers with 14 defective parts did not require restitution. In addition, one stock number in which we identified 20 additional defective parts required restitution.

Source: The DoD OIG.

Management Comments

Naval Supply Systems Command



DEPARTMENT OF THE NAVY
NAVAL SUPPLY SYSTEMS COMMAND
5450 CARLISLE PIKE
MECHANICSBURG, PA 17050-2411

4450
SUP 04/012
13 Feb 26

From: Commander, Naval Supply Systems Command
To: Department of Defense Office of Inspector General

Subj: STAKEHOLDER RESPONSE TO THE DOD OFFICE OF INSPECTOR GENERAL
DRAFT REPORT, "AUDIT OF NAVY DEFECTIVE PARTS AND CONTRACTOR
RESTITUTION (PROJECT NO. D2024-D000AX-0149.000)

Ref: (a) DODIG PROJECT NO. D2024-D000AX-0149.000

- Purpose. This is the Naval Supply Systems Command (NAVSUP) response to reference (a). NAVSUP concurs with the report as written and welcomes the opportunity for continued support to address recommendation 1.
- Recommendation 1. "We recommend that the Commander, Naval Supply Systems Command, review the four national stock numbers identified in this audit for which Navy personnel could not provide evidence of full restitution. If the review determines that the contractor did not provide restitution and the Navy can pursue restitution under the contract terms, require the applicable Navy contracting officer to pursue restitution from the contractor that provided defective parts. Also, comment on the \$2.6 million in questioned costs related to defective parts for which the Navy was unable to provide evidence of contractor restitution. If the commander disagrees with the questioned costs, identify the amount and the reason."
- Response to Recommendation 1. NAVSUP headquarters, NAVSUP Weapon Systems Support (WSS) Inspector General office, and NAVSUP WSS concur with Recommendation 1 and will complete an investigation into the four national stock numbers and associated costs no later than 12-months after the date of this letter.
- The point of contact for this memo is [REDACTED], is available at [REDACTED]

KOHL.LYNN.M
LYNN M. KOHL
By direction

Digitally signed by
KOHL.LYNN.M.
Date: 2026.02.13 08:38:08
-05'00'

Copy to:
NAVSUP 04
NAVSUP WSS (IG, N22)

Deputy Assistant Secretary of War for Logistics



SUSTAINMENT

OFFICE OF THE ASSISTANT SECRETARY OF WAR
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Deputy Assistant Secretary of War for Logistics Response to DoD Office of Inspector General Draft Report, "Audit of Navy Defective Parts and Contractor Restitution" (Project No. D2024-D000AX-0149.000)

This is the Deputy Assistant Secretary of War for Logistics (DASW(Log)) response to the DoD Office of Inspector General (DoD OIG) draft report, "Audit of Navy Defective Parts and Contractor Restitution" (Project No. D2024-D000AX-0149.000). DASW(Log) partially concurs with the report as written and welcomes the opportunity to provide clear guidance to the Services in DLM 4000.25, Defense Logistics Management Standards, Volume 2, Chapter 24.

Working with Defense Logistics Agency, ODASW(Log) will address the intent of D2024-D000AX-0149.000 Recommendations 2a and 2b, and develop and implement a corrective action plan outlined in the following recommendations:

RECOMMENDATION 2a: The DoD OIG recommends that the Deputy Assistant Secretary of Defense for Logistics:

- a. Update Defense Logistics Manual (DLM) 4000.25, Volume 2, Chapter 24 "Product Quality Deficiency Reporting," to require Military Departments to develop a process for obtaining restitution from contractors that provide defective parts. The guidance should clearly define key roles and responsibilities of responsible contracting officers, requiring their involvement in the PQDR process and require the Military Departments to:
 - i. Preserve an audit trail to support the receipt of restitution and specify the type of documentation needed
 - ii. Establish a program to provide recurring training to deficiency reporting personnel and monitor compliance with the requirement.

RESPONSE: DASW(Log) partially concurs with the recommendations to require Military Departments to develop a process for obtaining restitution from contractors that provide defective parts. DLM 4000.25, Volume 2, Chapter 24 establishes a comprehensive system to create and maintain an audit trail for PQDRs, and mandates use of a unique Report Control Number (RCN) for each PQDR. Additionally, the entire PQDR process is managed electronically through the Product Data Reporting and Evaluation Program (PDREP), which tracks all transactions and maintains a history for each report. In the next DLMS update for PQDR processes, ODASW(Log) will partner with DLA to fully address the intent of an audit trail to support the receipt of restitution, not later than October 2026. ODASW(Log) and DLA will document and communicate rationale for proposed changes, and will integrate with Acquisition Transformation Strategy efforts to address contracting equities.

DASW(Log) concurs that establishment of a program to provide recurring training, and monitoring of compliance with the training requirement. However, directing training to Military Departments and Services is outside the scope of DLMS. ODASW(Log) will address this intent in

Deputy Assistant Secretary of War for Logistics (cont'd)

updating Department of Defense Manual (DoDM) 4140.01 Volume 6 DoD Supply Chain Materiel Management Procedures: Materiel Returns, Retention, And Disposition, not later than March 2027.

RECOMMENDATION 2b: The DoD OIG recommends that the Deputy Assistant Secretary of Defense for Logistics:

- b. Require Military Departments to develop and implement controls and oversight to ensure tracking of contractor restitution from the completion of the investigation of the report on deficiencies in product quality through the receipt of restitution.

RESPONSE: DASW(Log) concurs with the recommendation to require development and implementation of controls and oversight so that DLM 4000.25, Volume 2, Chapter 24 (C24.3.12.8) explicitly requires implementation of "internal controls in accordance with DoD Directive 5010.40, Managers Internal Control Procedures" in managing PQDRs and tracking contractor restitution. ODASW(Log) will partner with DLA in refining content in the next DLMS update for PQDR processes, not later than October 2026.

3. The point of contact for Project No. D2024-D000AX-0149.000 is [REDACTED], or via email at [REDACTED]

CHERRY.MATT
J. [REDACTED] Digitally signed by
CHERRY.MATT.: [REDACTED]
Date: 2025.02.12 18:16:48 -0500

Col Matt Cherry, Military Deputy
Office of the Deputy Assistant Secretary of War
for Logistics

Attachment:
As stated

cc:
DLA J6DS

Acronyms and Abbreviations

DCMA	Defense Contract Management Agency
DLA	Defense Logistics Agency
JDRS	Joint Deficiency Reporting System
NAVAIR	Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
PDREP	Product Data Reporting and Evaluation Program
PQDR	Product Quality Deficiency Report



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For more information about DoD OIG reports or activities, please contact us:

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