



USCG Office of Commercial Vessel Compliance (CG-CVC)  
Mission Management System (MMS) Work Instruction (WI)



Category	Flag State Control				
Title	Vertical Contract Audits				
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Disclaimer:	This guidance is not a substitute for applicable legal requirements, nor is it itself a rule. It is not intended to nor does it impose legally-binding requirements on any part. It represents the Coast Guard’s current thinking on this topic and may assist industry, mariners, the public, and the Coast Guard, as well as other federal and state regulators, in applying statutory and regulatory requirements. If you want to discuss an alternative approach (you are not required to do so), you may contact the Coast Guard Office of Commercial Vessel Compliance (CG-CVC) at <a href="mailto:FlagStateControl@uscg.mil">FlagStateControl@uscg.mil</a> which is responsible for implementing this guidance.				
References:	<ul style="list-style-type: none"> <li>(a) IMO Instruments Implementation Code (III Code), <a href="#">IMO Resolution A.1070 (28)</a></li> <li>(b) Code for Recognized Organizations (RO Code), <a href="#">Resolution MEPC.237 (65)</a></li> <li>(c) 46 U.S.C. 3316</li> <li>(d) 46 C.F.R. Part 8</li> <li>(e) 46 C.F.R. Part 139</li> <li>(f) Applicable Memorandum of Agreement between the Recognized Organization and the U.S. Coast Guard Governing the Delegation of Statutory Certification and Services for United States of America Flag Ships.</li> </ul>				

- A. **Purpose.** This work instruction sets forth a protocol for Coast Guard personnel to conduct Vertical Contract Audits (VCAs)<sup>1</sup> of statutory certification, delegated functions, and other approved services conducted by third parties.<sup>2</sup> The purpose of a VCA is for the Coast Guard to independently verify that third party services, such as required surveys and audits, are effectively executed in accordance with established requirements and Quality Management System (QMS) principles, as applicable.
- B. **Background.** To support U.S. flag competitiveness, reduce regulatory burden, and manage limited resources, the Coast Guard authorized third parties to complete certain statutory certifications, conduct delegated functions on its behalf,<sup>3</sup> and provide other approved services. As a result of these authorizations, International Maritime Organization (IMO) instruments, domestic laws, and regulations require the Coast Guard to maintain an effective oversight program. One component of this oversight program is to conduct QMS audits of third parties to assess service delivery. Historically, the Coast Guard conducted or observed third party QMS audits at the headquarters or regional office level. VCAs provide a mechanism for the Coast Guard to directly and independently assess QMS effectiveness related to statutory certification, approved services, and other delegated functions conducted by third parties at the point of service delivery.
- C. **Discussion.**
1. Parties Subject to Coast Guard VCAs. The following third parties are considered subject to VCAs:

<sup>1</sup> See RO Code, Part 2, paragraph 1.8.

<sup>2</sup> For the purposes of this work instruction the term “statutory certification, services, and other delegated functions” includes those services as defined in the RO Code, Part 2, paragraph 1.3, 46 CFR 8.100, and “third-party organization” as defined in 46 CFR 136.110, plus part 138, 139.100, and 139.100.

<sup>3</sup> See III Code, RO Code, and 46 USC 3316.

- a. Recognized Organizations (ROs)<sup>4</sup> that are authorized to perform statutory certification, services, and other delegated functions on behalf of the Coast Guard under IMO instruments.
  - b. Third Party Organizations (TPOs)<sup>5</sup> that are authorized to perform towing vessel surveys and audits and issue Towing Safety Management System (TSMS) certificates.
2. Coast Guard Personnel Conducting VCAs. The lead auditor for VCAs will be a Coast Guard officer, warrant officer, or civilian (GS-12 or above) who has been designated in writing by Commandant (CG-CVC).
  3. Statutory Certification, Services, and other Delegated Functions subject to VCAs.
    - a. Vessel surveys;
    - b. Surveys related to Polar Code compliance;
    - c. Company or vessel Safety Management System (SMS) audits;
    - d. Towing Safety Management System (TSMS) audits;
    - e. Maritime Labour Convention (MLC) voluntary compliance audits;
    - f. New construction activities completed under the Alternate Compliance Program (ACP), Navigation and Vessel Inspection Circular 10-82 (series), or for those where a Design Basis Agreement provides for certain activities to be completed by an RO;
    - g. Surveys related to major conversions or modifications that otherwise affect the validity of required certificates;
    - h. Plan review and related technical work.<sup>6</sup>
- D. Audit Criteria. ROs and TPOs are required to implement and maintain a Quality Management System (QMS).<sup>7</sup> By design, each QMS must be ANSI/ISO/ASQ Q9001-2000 compliant and contain provisions to ensure consistent service delivery in accordance with relevant IMO instruments, U.S. law, domestic regulations, and in consideration of any relevant flag State policy or other related guidance, as applicable. VCAs will focus on the relevant provisions of the applicable QMS to assess:
1. The effectiveness of the QMS processes;
  2. The correct application of classification society rules (ROs only);
  3. The correct application of relevant international convention, statutory, and regulatory requirements;
  4. Surveyor or auditor conformance to QMS processes and other pertinent documents (flag state requirements, flag state guidance, etc.);
  5. The implementation of International Association of Classification Societies' (IACS) technical resolutions (Unified Requirements (UR), Unified Interpretations (UI), Procedural Requirements (PR), Common Structural Rules (CSR)), as applicable; (ROs only)
- E. Audit Scope. The audit scope defines the extent and boundaries of an audit.
1. In general, the scope of any VCA should focus on:

<sup>4</sup> For the purpose of this work instruction, the term "Recognized Organization," as defined in the RO Code, is synonymous with "Authorized Classification Society" (ACS) as defined in 46 CFR 8.100, "Authorized Organization Acting on behalf of the U.S." and "Recognized Organization" as defined in 33 CFR 96.120(b).

<sup>5</sup> Pursuant to 46 CFR 139.110, ACSs that satisfy 46 CFR 8.230 and RCSs authorized under 46 CFR part 8, subpart C or D, are not subject to further approval and may be considered a "TPO" for the purposes of 46 CFR Subchapter M. This blanket delegation is an extension of the authorizations provided under 46 CFR Part 8. As such, ROs while acting in a capacity as a TPO under Subchapter M, are cautioned to account for regulatory differences between the "TSMS option" of 46 CFR Subchapter M and other Coast Guard inspection programs.

<sup>6</sup> Oversight of plan review and related technical work is conducted exclusively by the Coast Guard Marine Safety Center (MSC) in accordance with established policies.

<sup>7</sup> See 46 CFR 8.230(a)(15) and 46 CFR 139.120(d).

- a. Request processing;
  - b. Allocation of competent and qualified surveyors and auditors;
  - c. Review of supporting documents, ship files, relevant drawings, etc.;
  - d. Review of the surveyor's or auditor's notes and other documentation relevant to the progress of the work;
  - e. Review of the actual product/service delivered by a visit on board ship or to the site;
  - f. Implementation of relevant sub-processes, as applicable (for example, previous part of surveys, or third party processes such as fire system or radio surveys);
  - g. Review of various reports and records related to statutory certification or services;
  - h. Interviews with the attending surveyor or auditor and, if necessary, the location manager (principal surveyor, regional manager, etc.); and,
  - i. Any other matters, the auditor considers relevant (flag State regulations, guidance, policy, Quality Cases, OCMI feedback, etc.).
2. Understanding that vessel statutory surveys often continue through multiple ports, the scope of the VCA should normally be limited to the activities carried out at the audit location. For example, the RO may limit the scope of a survey to machinery related components for the annual Cargo Ship Safety Construction Certificate while survey items related to deck or cargo equipment are deferred to the next port. In this example, the VCA would focus only on those machinery related survey items scheduled for completion on the day of the VCA.
  3. See CVC-FM-007 "Vertical Contract Audit Job Aid" for a sample audit checklist and list of questions.
- F. VCA Frequency. The frequency of VCAs will be determined by Key Performance Indicators (KPIs) that have been implemented to assess the effectiveness of RO or TPO service delivery. In addition, the Coast Guard may conduct random VCAs as resources permit.
- G. Audit Coordination. The lead auditor should contact the RO or TPO representative well in advance of the VCA to coordinate scope of the audit and arrange any necessary logistics (date, location, start time, berth, office location, port passes, etc.).
- H. VCA Cautions, Limitations, and Warnings.
1. The lead auditor should generally follow the audit checklist and use appropriate questioning, listening, observation, and corroboration techniques in order to establish facts related to the performed statutory certification, service, or other delegated function.
  2. A VCA is a combination of a "process audit" and a "product audit." In short, a VCA is trying to assess the degree to which the RO's or TPO's QMS processes effectively identify non-compliant "products" (that is, vessels or companies). Thus, if a VCA is being conducted on a ship, the condition of the ship and its equipment, the effective implementation of the SMS, TSMS, or both, may be referenced during the audit as a means of assessing the effectiveness of the RO's or TPO's related processes. However, the lead auditor must keep in mind that a VCA is NOT a Coast Guard vessel inspection and take care to not "lead" the surveyor or otherwise directly identify deficiencies or potential SMS non-conformities.
  3. If the Coast Guard identifies vessel technical or operational deficiencies or, in the case of company SMS or TSMS audits, non-conformities that were not sufficiently addressed by the RO or TPO, the Coast Guard lead auditor should inform the Officer in Charge, Marine Inspection (OCMI) to facilitate an appropriate resolution.
  4. Auditing is a sampling process. Where no non-conformities are identified during a VCA, it does not mean that none exist.

I. Audit Findings.

1. Non-conformity is the non-fulfilment of a specific requirement.
2. An Observation is a statement of fact made by the auditor based on objective evidence, but that is not a confirmed non-conformity. Examples include:
  - Lack of clarity, or ambiguity in the RO's or TPO's procedures or related documents.
  - A situation where a non-conformity may exist, but insufficient evidence has been found to substantiate the non-conformity.
  - Where there is an indication that there is a potential for non-conformance in the future, or the potential for the degradation of service quality.
  - An opportunity for improvement.
  - An observation is not an opportunity for an auditor to make comparisons among ROs. However, it is acknowledged that an auditor's experience may influence an observation.
3. All non-conformities and observations should be documented on CVC-FM-007 "Vertical Contract Audit Job Aid". Prior to recording a non-conformity, the lead auditor should inform the RO or TPO and seek agreement regarding the merits of the non-conformity. If agreement cannot be attained, a non-conformity may still be recorded and the non-concurrence should be noted in the audit report. All non-conformity statements must state the requirement and the objective evidence that the requirement was not met.
4. Following the audit, the lead auditor should complete a Management System Oversight (MSO) – 'Vertical Contract Audit' activity within the Coast Guard's Marine Information for Safety and Law Enforcement (MISLE) database. The activity should include a narrative description of the audit, input of any non-conformities, and issued observations. The MSO activity summary report generated by MISLE will serve as the formal audit report. The lead auditor shall provide a copy of this report to the RO or TPO no later than 30 days following completion of a VCA.

J. Corrective Action. Audit findings should be processed by the RO's or TPO's management in accordance with established procedures. The results of any associated root cause analysis or internal investigation and any proposed corrective actions should be sent to [FlagStateControl@uscg.mil](mailto:FlagStateControl@uscg.mil). Upon acceptance, the non-conformity will be considered "closed." The effectiveness of any implemented correction actions may be verified at future VCAs conducted by the Coast Guard, provided to the Accredited Certification Bodies for verification during regional and global headquarters audits conducted pursuant to the IACS QSCS (ROs only), or at future TPO audits as may be conducted by the Towing Vessel National Center of Expertise (TVNCOE).

K. Results of VCAs. Data, records, and non-conformities derived from VCAs will be used to inform RO and TPO Key Performance Indicators and may be used to employ additional oversight as necessary.

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By direction