

# Inspector General

United States  
Department of Defense



Independent Auditor's Report on the Attestation of  
the Existence, Completeness, and Rights of the  
Department of the Navy's Ships and Submarines,  
Trident Missiles, and Satellites





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

January 19, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/CHIEF FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Independent Auditor's Report on the Attestation of the Existence,  
Completeness, and Rights of the Department of the Navy's Ships and  
Submarines, Trident Missiles, and Satellites (Report No. DODIG-2012-040)

We are providing this report for information and use. No written response to this report was required. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905 (DSN 644-8905).

*[Handwritten signature]*  
FOR

Amy J. Frontz, CPA  
Principal Assistant Inspector General  
for Auditing





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We reviewed management's assertion of audit readiness for the existence, completeness, and rights of the Department of the Navy's (Navy's) mission-critical assets (ships and submarines, aircraft, Trident missiles, satellites, and ordnance) as of September 30, 2010. As a result of our review of Navy's assertion, we performed an attestation of the existence, completeness, and rights of the Navy's ships and submarines, Trident missiles, and satellites as of March 31, 2011. Aircraft and ordnance were excluded from this examination.

Navy management is responsible for its assertion of audit readiness. Our responsibility is to express an opinion on the assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards as stated in the Government Accountability Office, "Government Accounting Standards." Those standards require examining, on a test basis, evidence supporting the Navy's assertion of audit readiness of the existence, completeness, and rights of its mission-critical assets and performing other procedures we consider necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion on management's assertion.

In our opinion, the Navy's assertion of audit readiness for the existence, completeness, and rights of its ships and submarines, Trident missiles, and satellites as of March 31, 2011, is fairly stated in all material respects.

### **Internal Controls**

Internal controls are important for safeguarding assets. Management designs internal controls to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or detected and corrected in a timely manner. During our examination, we identified several internal control issues. These internal control issues

did not preclude us from reaching an opinion regarding Navy's assertion. However, management should take additional action to improve the internal controls to ensure the sustainability of its processes in accounting for the existence, completeness, and rights of its ships and submarines, Trident missiles, and satellites.

We identified the following internal control issues.

- The Navy's process memorandum for ships and submarines did not comply with the DoD Fiscal Year 2010, "Financial Improvement and Audit Readiness Guidance," May 15, 2010. Specifically, the memorandum did not include the necessary details, including clear narrative descriptions and process/system flows, to enable an independent reviewer to understand the operations used to account for the ships and submarines under review. For example:
  - The initial universe provided by Navy personnel was incorrect. The Navy could not identify what ships and submarines were part of the universe. As a result, the audit team's ability to obtain an accurate and timely universe was delayed.
  - The process memorandum did not include a list of the commands or entities responsible for each ship or submarine class. Without this information, it took auditors multiple attempts over several weeks to identify the correct points of contact for certain ships and submarines. Consequently, the audit team was delayed in obtaining supporting documentation to prove existence.
- The Navy did not produce process memoranda for Trident missiles and satellites in accordance with the DoD Fiscal Year 2010, "Financial Improvement and Audit Readiness Guidance," May 15, 2010. Process memoranda are important to the sustainability of assets and to understanding how assets are acquired, used, and reported throughout their life cycle. Without this information, the audit team encountered problems obtaining the universe of Trident missiles. Although the universe of satellites was limited because of the technical nature of how they are managed, specific process flows are necessary. The Navy needs to document these actions for future program sustainability and improve internal controls over financial reporting.
- The Navy did not have adequate internal and systems controls over the ships and submarines accountable property system of record (APSR), the Naval Vessel Register. Specifically, the Naval Vessel Register did not:
  - prevent account users from making unauthorized changes;
  - segregate duties;
  - require passwords in accordance with DoD regulations; or
  - keep a history of changes made to the data.

These controls help to ensure data integrity over financial information.

- The Navy did not establish an APSR for the Trident missiles and satellites, as required by DoD Instruction 5000.64 "Accountability and Management of DoD Equipment and Other Accountable Property" November 2, 2006, which was in effect as of March 31, 2011. The APSR should provide a complete trail of all transactions suitable for audit. This would also document that our military forces are properly equipped. Without an APSR, it is difficult to determine whether assets physically exist and whether the universe of assets in the accounting system is complete.

Improving these internal control processes will help the Navy repeat and sustain the processes during future financial statement examinations.

We provided an advanced copy of this report to the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), who provided comments. We considered the comments and made changes where appropriate. This report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Assistant Secretary of the Navy (Financial Management and Comptroller); and the Director, Defense Finance and Accounting Service, and is not intended to be and should not be used by anyone else. However, this report is a matter of public record, and its distribution is not limited.

  
PR Amy J. Frontz, CPA  
Principal Assistant Inspector General  
for Auditing







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