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Inspector General
United States
Department of Defense

Attestation of the Department of the Navy's Environmental Disposal for Weapons Systems Audit Readiness Assertion

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Acronyms and Abbreviations

FIP	Financial Improvement Program
GAO	Government Accountability Office
HHG	Hitchhikers Guide to Navy Surface Ships
LDT	Light Displacement Tonnage
NAVSEA	Naval Sea Systems Command
NAVSHIPSO	NAVSEA Shipbuilding Support Office
NVR	Naval Vessel Register
OIG	Office of the Inspector General
USS	United States Ship

INSPECTOR GENERAL
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October 10, 2008

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: Attestation of the Department of the Navy's Environmental Disposal for Weapons Systems Audit Readiness Assertion (Report No. D-2009-002)

We are providing this report for review and comment. We considered comments from the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Commander, Naval Sea Systems Command when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Department of the Navy were only partially responsive. Therefore, we request additional comments on Recommendations A.1-2., B., C.1-4., and D.1-2. by November 10, 2008.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send your comments in electronic format (Adobe Acrobat file only) to Aud CLEV@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Edward A. Blair at (216) 706-0074 extension 226 or Ms. Laura J. S. Croniger at (216) 706-0074 extension 227. The team members are listed inside the back cover.

Patricia A. Marsh

Patricia A. Marsh, CPA
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Results in Brief: Attestation of the Department of the Navy's Environmental Disposal for Weapons Systems Audit Readiness Assertion

What We Did

The overall audit objective was to perform an examination and attest to the audit readiness of the Navy Weapon Systems Environmental Liabilities. Specifically, we reviewed the Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item and related note disclosure (Note 14) as of March 31, 2007. We tested the:

- accuracy of the amortization workbooks and spent nuclear fuel estimate,
- completeness of the environmental liability universe,
- reliability of external source and internal supporting documentation used in the amortization workbooks, and
- control activities related to the amortization workbooks.

What We Found

We found that the:

- Naval Sea Systems Command (NAVSEA) Financial Improvement Program (FIP) team did not properly calculate and record the nuclear-powered and non-nuclear portion of the Environmental Liabilities line item,
- Navy did not include all of the disposal costs related to its weapon systems in its environmental liability estimate,
- NAVSEA FIP team did not ensure the adequacy or availability of the external source documentation from the Naval Vessel Register and the Hitchhikers Guide to Navy Surface Ships to support the environmental liability calculation. In addition, the NAVSEA FIP team did not provide internal supporting documentation necessary to determine whether the environmental liability calculation was reliable and reasonable, and
- NAVSEA FIP team did not have sufficient internal controls over the amortization workbooks.

What We Recommend

The Navy should:

- revise standard operating procedures to improve the reporting of the environmental liability,
- ensure that all of the disposal costs related to its weapon systems are included in its Environmental Disposal for Weapons Systems line item,
- ensure that the external source or internal supporting documentation is adequate and provided in a timely manner, and
- ensure the accuracy, reliability, and authenticity of the data entered into the amortization workbooks.

Client Comments and Our Response

The Director, Office of Financial Operations, Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with the recommendations, but the comments were partially responsive. We request that the Assistant Secretary of the Navy (Financial Management and Comptroller) and NAVSEA provide comments on the final report by November 10, 2008.

Recommendations Table

Client	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Navy (Financial Management and Comptroller)	B.	--
Naval Sea Systems Command	A.1-2, C.1-4., and D.1-2.	--

Please provide comments by November 10, 2008.

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Introduction

Objectives

The overall audit objective was to perform an examination and attest to the audit readiness of the Navy's Weapon Systems Environmental Liabilities. Specifically, we verified the audit readiness of the Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item and related note disclosure as of March 31, 2007. See Appendix A for a discussion of the scope and methodology, a review of internal controls, and prior audit coverage.

Background

The Chief Financial Officers Act of 1990, as amended, requires Federal agencies to produce auditable annual financial statements. The Navy developed the Financial Improvement Program (FIP) to transform its business environment to support timely, accurate, and reliable financial information. The ultimate goal of the FIP is to obtain a clean audit opinion on the Navy financial statements. The FIP is a building block for the Financial Improvement and Audit Readiness Plan, which lays out a process for achieving comprehensive financial management improvements. The plan identified the Environmental Liabilities line item as one of the Navy's initial focus areas.

An environmental liability is a probable and measurable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. See Appendix B for a glossary of specialized terms. Environmental cleanup includes costs associated with the closure of facilities or the future disposal of facilities, equipment, or munitions. These costs encompass the cost of researching and determining the existence of hazardous waste. They also include removing, containing, and/or disposing of hazardous waste from property, or material and property that consist of hazardous waste at the time of shutdown or disposal of the asset.

On January 10, 2007, the Navy asserted the audit readiness on a portion of its Environmental Liabilities: the Environmental Disposal for Weapons Systems reported on the General Fund Balance Sheet. Environmental Disposal for Weapons Systems accounts for $13.1 billion (69.8 percent) of the total Environmental Liabilities line item as of March 31, 2007. In addition, the liability related to the disposal of spent nuclear fuel accounts for $3.2 billion (17.3 percent) of the total Environmental Liabilities line item as of March 31, 2007.

The Naval Sea Systems Command (NAVSEA) FIP team is responsible for the Navy General Fund environmental liabilities business process. The NAVSEA FIP team outlines how to record environmental liabilities related to the disposal of nuclear-powered and non-nuclear vessels in separate business process memoranda. The NAVSEA FIP team records information used to calculate the environmental liabilities in two amortization workbooks (workbooks). The workbooks include Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels and the Environmental

Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels. In addition, the NAVSEA FIP team obtains the spent nuclear fuel estimate from the Naval Reactors Facility to include in the Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item.

Finding A. Recording the Environmental Disposal for Weapons Systems

The Naval Reactors Facility personnel accurately calculated the disposal costs related to the spent nuclear fuel portion of the Environmental Liabilities line item, and the Naval Sea Systems Command (NAVSEA) Financial Improvement Program (FIP) team properly recorded them. However, the NAVSEA FIP team did not properly calculate and record the disposal costs related to the nuclear-powered and non-nuclear portion of the Environmental Liabilities line item. As a result, the Navy understated the General Fund portion of the Environmental Disposal for Weapons Systems by $21.0 million as of March 31, 2007. The Assistant Secretary of the Navy (Financial Management and Comptroller) should revise standard operating procedures to improve reporting of environmental liabilities. Specifically, the NAVSEA FIP team should ensure that the workbooks contain the following correct vessel information:

- commission date,
- light displacement tonnage (LDT),
- useful life, and
- status (such as, inactive or active).

Additionally, the NAVSEA FIP team should verify the formulas used to calculate the environmental liability.

Spent Nuclear Fuel and Environmental Liability Amortization Workbooks

The disposal costs related to spent nuclear fuel included all nuclear material that has been or will be removed from all nuclear-powered vessels. The disposal costs also included all costs from the time the spent nuclear fuel was put into a container until accepted by a geological repository. There is significant uncertainty as to when the geological repository will be constructed and ready to accept the spent nuclear fuel.

The NAVSEA FIP team used two amortization workbooks (workbooks) to calculate the environmental liability: the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels. Vessel classification determines how the liability is calculated. The NAVSEA FIP team classified vessels in four ways in the workbooks: (1) active vessels commissioned after September 30, 1997, (2) active vessels commissioned prior to October 1, 1997, (3) inactive (decommissioned) vessels, and (4) historical inventory. The NAVSEA FIP team should recognize the full liability for vessels commissioned prior to October 1, 1997, in the initial year recorded. They amortized the liability over its useful life for vessels commissioned after September 30, 1997. Vessels transferred into the historical tab carry no environmental liability and are included only for documentation purposes.

Reporting of Spent Nuclear Fuel Environmental Liability

The Naval Reactors Facility personnel accurately calculated the disposal costs related to the spent nuclear fuel portion of the Environmental Liabilities line item, and the NAVSEA FIP team properly recorded them. The Naval Reactors Facility personnel developed an estimate that properly included all costs from the time the spent nuclear fuel was put into a container until accepted by a geological repository. The Naval Reactors Facility personnel correctly estimated the Navy's disposal for the spent nuclear fuel based on information currently available. In addition, the Naval Reactors Facility personnel incorporated an uncertainty factor into the estimate because the proposed geological repository is not yet available to receive spent nuclear fuel.

Reporting of Nuclear-Powered Vessels Environmental Liabilities

The NAVSEA FIP team did not properly calculate and record the Environmental Liabilities line item. We analyzed the workbook for nuclear-powered vessels. We identified an additional $17.0 million of environmental liabilities not reported on the Navy Balance Sheet.

We identified several errors in the workbook that led to an understatement of $17.0 million. The errors included vessels with incorrect commission dates, LDT, and useful life. These errors occurred because the Assistant Secretary of the Navy (Financial Management and Comptroller) did not establish reliable standard operating procedures to properly record information captured in the workbook.

Commission Dates

The NAVSEA FIP team used the incorrect commission dates to compute the environmental liability for two active vessels commissioned after September 30, 1997: the United States Ship (USS) *Connecticut* and the USS *Jimmy Carter*. The NAVSEA FIP team's process memorandum states that the source of the commission date is the Naval Vessel Register (NVR). The NAVSEA FIP team used commission dates to compute the environmental liabilities for active vessels commissioned after September 30, 1997. By using incorrect commission dates, the Navy overstated its environmental liability by $21.2 million.

Light Displacement Tonnage

The NAVSEA FIP team used the incorrect LDT to compute the environmental liability for four active commissioned vessels: the USS *Nimitz*, the USS *Theodore Roosevelt*, the USS *George Washington*, and the USS *Ronald Reagan*. The NAVSEA FIP team's process memorandum states that the Hitchhikers Guide to Navy Surface Ships (HHG) is the primary source of the LDT. The secondary source was the NVR. The NAVSEA FIP team did not use the LDT from either source, and we were unable to determine the source they used. Therefore, the NAVSEA FIP team understated the LDT by 353 tons. This resulted in an understatement of $433.9 thousand on the Navy General Fund Balance Sheet.

Useful Life

Initially, we identified four active vessels for which the NAVSEA FIP team used the incorrect useful life to compute the environmental liability: the USS *Harry S. Truman*, the USS *Ronald Reagan*, the USS *Connecticut*, and the USS *Jimmy Carter*. The NAVSEA FIP team used a useful life of 50 years to compute the environmental liability for the USS *Harry S. Truman* and the USS *Ronald Reagan*. However, the Chief of Naval Operations supporting documentation included in the assertion package listed a useful life of 35 years for the USS *Harry S. Truman* and the USS *Ronald Reagan*. The NAVSEA FIP team stated that representatives from NAVSEA 07 and NAVSEA 08 had instructed them to change the useful life for the USS *Harry S. Truman* and the USS *Ronald Reagan* from 35 years to 50 years. We began requesting official documentation showing the instruction from NAVSEA 07 and NAVSEA 08 in February 2007. After numerous requests from February 2007 to April 2008, we did not receive the official documentation with the instruction from NAVSEA 07 and NAVSEA 08. However, in April 2008, a representative from the Assistant Secretary of the Navy (Financial Management and Comptroller) provided us with other documentation that supported using the 50-year useful life for the USS *Harry S. Truman* and the USS *Ronald Reagan*. Therefore, we performed our analysis again after incorporating the additional supporting documentation.

Further analysis indicated that the NAVSEA FIP team still used the incorrect useful life to compute the environmental liability for two active vessels: the USS *Connecticut* and the USS *Jimmy Carter*. The NAVSEA FIP team overstated the total useful life for these vessels by 6 years. This resulted in an understatement of $3.8 million on the Navy General Fund Balance Sheet.

Reporting of Non-Nuclear Environmental Liabilities

The NAVSEA FIP team did not properly calculate and record the Environmental Liabilities line item for the non-nuclear environmental liabilities. We analyzed the workbook for non-nuclear vessels and identified an additional $4.0 million of environmental liabilities not reported on the Navy Balance sheet.

We identified several errors in the workbook that led to an understatement of $4.0 million. The errors included vessels with incorrect LDT, vessels with incorrect useful life, a vessel with incorrect status, and an incorrect formula used to compute the environmental liability for vessels commissioned after September 30, 1997. These errors occurred because the Assistant Secretary of the Navy (Financial Management and Comptroller) did not establish reliable standard operating procedures to properly record information captured in the workbook.

Light Displacement Tonnage

The NAVSEA FIP team used the incorrect LDT to compute the environmental liability for three inactive vessels: the USS *Austin*, the USS *Duluth*, and the USS *Robin*. The NAVSEA FIP team's process memorandum states that the HHG is the primary source of the LDT. The secondary source is the NVR. The NAVSEA FIP team did not use the

LDT from either source, and we were unable to determine the source used. Therefore, they overstated the LDT by 676 tons. This resulted in an overstatement of $59.7 thousand on the Navy General Fund Balance Sheet.

Useful Life

The NAVSEA FIP team used the incorrect useful life to compute the environmental liability for two active vessels: the USS *Pearl Harbor* and the USS *Atlantis*. The NAVSEA FIP team recognized the estimated environmental liability over the vessel's useful life for active vessels placed into service after September 30, 1997. The NAVSEA FIP team obtained the estimated useful life from the Office of the Chief of Naval Operations. The NAVSEA FIP team did not use the useful life provided to them by the Chief of Naval Operations to calculate the environmental liability. The NAVSEA FIP team overstated the total useful life reported by 20 years. This resulted in an understatement of $37.7 thousand on the Navy General Fund Balance Sheet.

Status

The NAVSEA FIP team used the incorrect status for one vessel. When a vessel is completely disposed, the NAVSEA FIP team transfers it from inactive to historical status. The NAVSEA FIP team incorrectly reported a disposed vessel, the USS *Valley Forge*, as inactive in the workbook. According to the NVR, the vessel was in a historical status and, therefore, should no longer carry an environmental liability. However, the NAVSEA FIP team continued to report the environmental liability in the workbook. This resulted in an overstatement of $650.7 thousand on the Navy General Fund Balance Sheet.

Workbook Formulas

The NAVSEA FIP team did not accurately compute the environmental liability for vessels placed into service after September 30, 1997. The DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 13, October 2005, states that the Component should systematically recognize the estimated environmental liabilities associated with General Property, Plant, and Equipment placed in service after September 30, 1997, over the useful life. Table 1 provides an example of how the NAVSEA FIP team used the workbook to calculate the environmental liability. The NAVSEA FIP team incorrectly multiplied the total disposal per vessel (Column A) by 25 percent. Instead, they should have multiplied the total recognized liability per vessel to date (Column E) by 25 percent.

Table 1. Incorrect Environmental Liability Calculation by the NAVSEA FIP Team

A Total Disposal Per Vessel	B Useful Life	C Elapsed Service in Life	D Total Recognized Liability Per Vessel Per Annum	E Total Recognized Liability Per Vessel to Date	F Total Recognized Environmental Liability Per Vessel (25 percent)	G Total Recognized Non-Environmental Liability Per Vessel (75 percent)
$1,000,000	25	10	$10,000	$100,000	$25,000	$75,000
			(A x .25) ÷ B	C x D	E x .25	E - F

Table 2 provides an example of how the NAVSEA FIP team should have computed the environmental liability according to their process memorandum.

Table 2. Correct Environmental Liability Calculation

A Total Disposal Per Vessel	B Useful Life	C Elapsed Service in Life	D Total Recognized Liability Per Vessel Per Annum	E Total Recognized Liability Per Vessel to Date	F Total Recognized Environmental Liability Per Vessel (25 percent)	G Total Recognized Non-Environmental Liability Per Vessel (75 percent)
$1,000,000	25	10	$40,000	$400,000	$100,000	$300,000
			A ÷ B	C x D	E x .25	E - F

The NAVSEA FIP team did not use the correct environmental liability calculation. This resulted in an understatement of $4.6 million on the Navy General Fund Balance Sheet.

Client Comments on the Finding and Our Response

Navy Comments

The Comptroller/Deputy Commander of NAVSEA:

- stated that we did not inform the NAVSEA FIP team of the additional $17 million of environmental liability not reported on the Navy Balance Sheet for the nuclear-powered vessels environmental liability;
- disagreed with our statement that the NAVSEA FIP team used the incorrect useful life to compute the environmental liability for two active nuclear-powered vessels, indicating that the useful life for those two vessels is 33 years; and
- disagreed with our statement that the NAVSEA FIP team used the incorrect useful life to compute the environmental liability for two active non-nuclear vessels, indicating that the useful life for two vessels is 25 years.

Our Response

On August 13, 2007, we e-mailed the Department of the Navy (Financial Management and Comptroller) and NAVSEA FIP team representatives regarding specific misstatements we identified in the reporting of the nuclear-powered vessels environmental liability. On August 17, 2007, a NAVSEA FIP team representative informed the Department of the Navy (Financial Management and Comptroller) representative that the supporting documentation would have to be reviewed before making any adjustments. We did not receive any other response or request from Department of the Navy (Financial Management and Comptroller) or NAVSEA FIP team representatives to discuss the misstatements identified.

The process memorandum for nuclear-powered vessels states that the Chief of Naval Operations provides the NAVSEA Estimated Useful Life Ship Listing document as the supporting documentation for the useful life for nuclear powered vessels. This document states that the estimated useful life for the Seawolf (SSN-21) Class is 30 years. Because the USS *Connecticut* and the USS *Jimmy Carter* are Seawolf (SSN-21) Class vessels, they should have a useful life of 30 years. However, the NAVSEA FIP team

included 33 years as the useful life for the USS *Connecticut* and the USS *Jimmy Carter* in the workbook. This resulted in an overstatement of 3 years for the useful life of both the USS *Connecticut* and the USS *Jimmy Carter*, a total overstatement of 6 years.

The process memorandum for non-nuclear vessels states that the Chief of Naval Operations provides the NAVSEA Estimated Useful Life Ship Listing document as the supporting documentation for the useful life. This document states that the estimated useful life for the Landing Ship Dock 49 Class is 25 years and the estimated useful life for the Auxiliary General Oceanographic Research 23 Class is 20 years. According to the NVR, the USS *Pearl Harbor* is a Landing Ship Dock 49 Class vessel and the USS *Atlantis* is an Auxiliary General Oceanographic Research 23 Class vessel. Therefore, the USS *Pearl Harbor* and USS *Atlantis* should have a useful life of 25 years and 20 years, respectively. However, the NAVSEA FIP team included 40 years as the useful life for the USS *Pearl Harbor* and 25 years as the useful life for the USS *Atlantis* in the workbook. This resulted in an overstatement of 15 years and 5 years for the useful life, respectively, or a total overstatement of 20 years for the two vessels.

In addition, we included the other Auxiliary General Oceanographic Research 26 Class vessel, the USS *Kilo Moana*, as one of the 111 non-nuclear vessel useful life errors that could affect the Navy Balance Sheet (See Finding D). According to the NVR, the USS *Kilo Moana* is an Auxiliary General Oceanographic Research 26 Class vessel. The NAVSEA Estimated Useful Life Ship Listing document did not list an estimated useful life for the Auxiliary General Oceanographic Research 26 Class. The NAVSEA FIP Team included 25 years as the useful life for the USS *Kilo Moana*. We were unable to determine the financial impact of this error because the useful life for this vessel was not included in the supporting documentation. Therefore, we identified the useful life error as potentially affecting the Navy Balance Sheet.

Recommendations, Client Comments, and Our Response

A. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) revise standard operating procedures to improve the reporting of the environmental liability. Specifically, the Naval Sea Systems Command Financial Improvement Program team should ensure that the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels contain:

1. Correct vessel information such as commission date, light displacement tonnage, useful life, and status.

Navy Comments

The Comptroller/Deputy Commander of NAVSEA stated that DoD Office of the Inspector General (OIG) auditors did not provide the NAVSEA central point of contact with the list of the 204 vessels for which the external source documentation from the

NVR did not support the commission date of the selected vessels. She also stated that the commission date only impacts a small portion of the environmental liability estimate. There has been an effort within NAVSEA to ensure that there is an official useful life listing for vessels to address inconsistencies in sources of this information. In addition, she stated that the other fields (fleet ownership, hull number, and unit identification code) do not have an impact on the environmental liability estimate. Specifically, the fleet ownership of a vessel can change during the life of a vessel. When DoD OIG auditors checked the fleet ownership against the NVR, the information could have changed since the setup and review of the data.

Our Response

The Department of the Navy comments were partially responsive. The NAVSEA FIP team did not request a list of the 204 vessels with unsupported commission dates during our audit. However, we have included this information in Appendix D. We considered any deviation between the workbooks and the supporting documentation an error. We stated in this report that we found 262 errors that could cause misstatements on the Navy General Fund Balance Sheet. We also stated that we identified the errors in the commission date, status, light displacement tonnage, and useful life data fields. The NAVSEA FIP team uses these data elements to calculate the environmental liability. Therefore, an error in one of the data fields could result in either an overstatement or an understatement to the environmental liability estimate and further lead to a misstatement on the Navy General Fund Balance Sheet. Although the NAVSEA FIP team did not use the fleet, hull number, and unit identification code to calculate the environmental liability, an error in these data fields represents an internal control weakness and poses a concern for the integrity of the workbooks. Furthermore, we compared the fleet ownership in the workbooks to the fleet ownership documented in the NVR at the time of our audit. An archive of the NVR was not available and there was no audit trail of changes made to the NVR. In addition, the NAVSEA FIP team did not retain the support from the NVR for information included in the workbooks as of March 31, 2007. Therefore, we relied on the information that was in the NVR when we performed our review. Lastly, we considered the LDT variances as an internal control weakness. The NAVSEA FIP team did not ensure the adequacy or availability of the supporting documentation from the HHG. In its assertion package, the Navy stated that there is sufficient audit-ready evidential matter to support the environmental liability transactions. However, we determined that only 2 of the 32 vessels that we requested supporting documentation for were properly supported. We request that the Comptroller/Deputy Commander of NAVSEA reconsider her position and provide comments on this recommendation and corrective action(s) with milestones in response to the final report.

2. Accurate formulas used to calculate the environmental liability.

Navy Comments

The Comptroller/Deputy Commander of NAVSEA agreed that there was an error in its environmental liability calculation. The amortization workbook will reflect the correct adjustment. NAVSEA will continue its efforts to ensure the integrity of internal controls

through its Management Internal Control Program, performing annual testing of the environmental liability process.

Our Response

The Department of the Navy comments were responsive; however, we request that the Comptroller/Deputy Commander of NAVSEA provide a milestone for the corrective action when commenting on the final report.

Client Comments on the Potential Misstatements

Navy Comments

The Director, Office of Financial Operations, Assistant Secretary of the Navy (Financial Management and Comptroller) and Comptroller/Deputy Commander, Naval Sea Systems Command were questioning the inclusion of immaterial misstatements in the report.

Our Response

The objective of this examination engagement was to attest to the audit readiness of the Environmental Liability Disposal for Weapons Systems line item. If this had been an actual audit of the Environmental Liability Disposal for Weapons Systems line item, we would have performed our testing using statistical sampling methods and projected the results of those tests over the universe of vessels being audited. As a result, the misstated amounts may have been material. Because we were not auditing the line item balance, this report focuses on the control environment in which the Environmental Liability Disposal for Weapons Systems line item is calculated and managed. In addition, regarding the immaterial misstatements identified in this report, the aggregate absolute value of the misstatements was $158.6 million (1.2 percent) of the $13.1 billion of the Environmental Liability Disposal for Weapons Systems line item. See Appendix C for a discussion of the aggregate of the misstatements.

Client Comments Required

We request that management provide additional comments in response to the final report. The comments should include elements marked with an X in Table 3.

Table 3. Client Comments Required

Recommendation	Organization	Agree/ Disagree	Proposed Action	Milestone
A.1.	Naval Sea Systems Command	X	X	X
A.2.	Naval Sea Systems Command	--	--	X

Finding B. Completeness of the Environmental Liability for Disposal Costs Related to Weapons Systems

The Navy did not completely report disposal costs related to its weapons systems in its environmental liability estimate. For example, the Navy did not include costs related to the disposal of aircraft. As a result, the Navy General Fund Balance Sheet was misstated. The Assistant Secretary of the Navy (Financial Management and Comptroller) should ensure that the Navy's complete environmental liability for disposal costs related to weapons systems are included in its estimate of the Environmental Disposal for Weapons Systems line item.

Navy Aircraft

The Navy did not include its complete environmental liability for disposal costs related to weapons systems in its estimate of the Environmental Disposal for Weapons Systems line item. For example, the Navy did not include $127.7 million for the disposal of 1,319 F/A-18 *Hornet* and 591 F-14 *Tomcat* aircraft. To calculate the $127.7 million environmental liability, we multiplied the Government Accountability Office (GAO) demilitarization and hazardous removal costs[1] by the number of F/A-18 *Hornet* and F-14 *Tomcat* aircraft in the Navy Aircraft Inventory Readiness Reporting System.

Figure 1. Naval Weapons Systems
Photos Courtesy of the U.S. Navy and Federation of American Scientists

We identified two classes of combat aircraft (F/A-18 *Hornet* and F-14 *Tomcat*) in the Navy's current inventory. The Hazardous Materials Table in 49 Code of Federal Regulations 172.101 (2007) considers petroleum a hazardous material. Because a petroleum product fuels these aircraft, we determined that the aircraft contain a hazardous material and, therefore, should be included in calculating the Navy's environmental liability. According to the DoD Regulation 7000.14-R, volume 4, chapter 13, "Environmental and Nonenvironmental Liabilities," October 2005, Components must maintain an inventory of environmental sites and reconcile it with property, plant, and equipment records. The purpose of the reconciliation is to ensure that all of DoD's disposal liabilities, both environmental and nonenvironmental, are recognized. However,

[1] We adjusted the costs identified in the GAO/Accounting and Information Management Division-98-9, "Financial Management DOD's Liability for Aircraft Disposal Can Be Estimated," November 1997 report for inflation.

the Navy did not consider these aircraft as environmental liabilities because no guidance specified that these types of equipment should be included. The Navy did not include at least $127.7 million for the disposal of 1,319 F/A-18 *Hornet* and 591 F-14 *Tomcat* aircraft because of unclear guidance. As a result, the Navy misstated its General Fund Balance Sheet. To mitigate this issue, the Assistant Secretary of the Navy (Financial Management and Comptroller) should identify and report its entire disposal costs related to weapons systems in the Environmental Disposal for Weapons Systems line item.

Recommendation, Client Comments, and Our Response

B. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) ensure that all of the Navy's disposal costs for weapons systems are included in its Environmental Disposal for Weapons Systems line item.

Navy Comments

The Director, Office of Assistant Secretary of the Navy (Financial Management and Comptroller) agreed and stated that although the recommendation is outside the scope of the requested examination; his office will take appropriate action.

Our Response

The Department of the Navy comments were partially responsive. Our scope was to examine and attest to the audit readiness of the Navy's Weapon Systems Environmental Liabilities. The Navy's weapons systems are not limited to its nuclear and non-nuclear vessels, but should include all of its weapons systems. We request that the Director, Office of Assistant Secretary of the Navy (Financial Management and Comptroller) provide specific corrective action(s) with milestones when commenting on the final report.

Client Comments Required

We request that management provide additional comments in response to the final report. The comments should include elements marked with an X in Table 4.

Table 4. Client Comments Required

Recommendation	Organization	Agree/ Disagree	Proposed Action	Milestone
B.	Assistant Secretary of the Navy (Financial Management and Comptroller)	--	X	X

Finding C. External Source and Internal Supporting Documentation

The NAVSEA FIP team did not ensure the adequacy or availability of the external source documentation from the NVR and the HHG to support the environmental liability calculation. In addition, they did not provide internal supporting documentation necessary to determine whether the environmental liability calculation was reliable and reasonable. As a result, there is an increased risk that the Navy General Fund Balance Sheet was misstated. The Assistant Secretary of the Navy (Financial Management and Comptroller) should ensure that the external source or internal supporting documentation for:

- LDT from the HHG is adequate and
- commission and decommission dates from the NVR are adequate.

In addition, the documentation needs to be provided to auditors in a timely manner.

Criteria for Documentation

We reviewed external source and internal supporting documentation to verify the accuracy and adequacy of data supporting environmental liability estimates. We considered documentation obtained from a third party as external source documentation. Documentation included in the assertion package, and documentation that should have been included in the assertion package is considered internal supporting documentation. The DoD Regulation 7000.14-R, volume 1, chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," May 1993, requires pertinent documents that adequately support financial transactions. This also includes systems data. In addition, the "Financial Improvement Initiative Business Rules," June 23, 2004, requires activities to have available general ledger transaction detail and supporting information for transactions that make up the balance(s) when the Navy Financial Statements are ready for an opinion. Furthermore, the DoD OIG memorandum, "Auditor Access for Financial Statement Audits," January 24, 2005, states that the reporting entity will be responsible for providing required supporting documentation to auditors within 2 working days.

External Source Documentation

The NAVSEA FIP team did not ensure the adequacy or availability of external source documentation used in the environmental liability calculation. The NAVSEA FIP team used the HHG and NVR as sources for data used in the calculation. We requested the external source documentation from the HHG for 32 out of 388 vessels. However, the

NAVSEA FIP team only provided the external source documentation from the HHG for 21 out of 32 vessels. This external source documentation included engineering reports such as the:

- Inclining Experiment and Towing Stability Report,
- Pre-Depot Modernization Period Trim Dive Report and Reballast Proposal, and
- Actual Weight and Moment Report.

These engineering reports enabled us to verify the reasonableness of data used to estimate the environmental liabilities. For the remaining 11 vessels, the NAVSEA FIP team was unable to provide external source documentation because of difficulties with extracting historical documentation. Therefore, we were unable to verify the reasonableness of $51.9 million in environmental liability estimates. We also reviewed the external source documentation for the NVR to evaluate the reliability of information. We determined that the external source documentation for the NVR was also inadequate because we could not use it to verify commission and decommission dates. The NAVSEA FIP team did not verify that the HHG and NVR were reliable sources. In addition, the NAVSEA FIP team did not advise the external source owners that they would be using their documents to support the Navy's financial statements. As a result, there is an increased risk that the Navy General Fund Balance Sheet was misstated. The Navy must establish proper guidance to ensure that the HHG and NVR are reliable sources. The Assistant Secretary of the Navy (Financial Management and Comptroller) should:

- notify external source owners that their information will be used to support the Navy's financial statements and
- train external source owners on what documentation is needed to properly support a financial statement audit.

Hitchhikers Guide to Navy Surface Ships

The HHG is a compilation of the physical characteristics of the Navy surface vessels. It provides a summary of pertinent information related to the stability and buoyancy condition of the surface vessels. The LDT is one of the characteristics included in the HHG.

The NAVSEA FIP team used the HHG as a source for the LDT to compute the environmental liability. To ensure the availability of adequate external source documentation for the LDT, we performed a review of the documentation for 32 out of 388 vessels included in the workbooks. We determined whether the LDT recorded in the workbooks was traceable to external source documentation. We considered the LDT supported if we were able to recalculate it from the external source documentation provided. We considered it partially supported if we were able to only trace the LDT recorded in the workbooks to the external source documentation but not recalculate it. We considered it unsupported if we could neither trace the LDT recorded in the workbooks to the external source documentation nor recalculate it. Additionally, we did

not receive any external source documentation for 11 out of 32 vessels. For the results of the review, see Table 5.

Table 5. External Documentation Supporting Selected Vessels From the Hitchhikers Guide to Navy Surface Ships

	Vessels	Amount	Percent of Total Amount
Supported	2	$ 9,743,408	0.8 percent
Partially Supported	4	925,116,785	72.6 percent
Unsupported	15	287,827,953	22.6 percent
Not Provided	11	51,897,938	4.0 percent
Total	**32**	**$1,274,586,084**	**100.0 percent**

Naval Vessel Register

The NVR, an electronic database, is the official inventory of vessels in the custody of, or titled by, the Navy. It established the baseline for estimating the environmental liability for all Naval vessels (both nuclear-powered and non-nuclear). The NVR lists a vessel when the classification and hull number(s) are assigned or when the Chief of Naval Operations requests instatement or reinstatement of the vessel. Once listed, the vessel remains in the NVR throughout its life as a Navy asset and afterward to record final disposition.

The NAVSEA Shipbuilding Support Office (NAVSHIPSO) maintains and continuously updates the NVR. The NAVSHIPSO, "Desk Guide Naval Vessel Register," September 26, 2005, requires supporting documentation in the form of correspondence, message traffic, e-mail, and Letters of Acceptance for all data included in the NVR. NAVSHIPSO retains these hard copy documents in individual vessel class files. They maintain these documents to preserve an audit trail. Two key data elements in the NVR include commission and decommission dates. The NAVSEA FIP team used the NVR for the commission and decommission dates to calculate the environmental liability.

To ensure the availability of adequate external source documentation for the dates included in the NVR, we performed a review of 214 out of 388 vessels selected from the workbooks, 57 of which were decommissioned. For the results of the review, see Tables 6 and 7. For the unsupported commission date detail, see Appendix D. We considered the following documentation adequate for the vessels reviewed because of their official nature:

- Commissioning Order (commission date);
- Information Request (commission date); and
- Approval to Decommission, Strike, and Dispose Order (decommission date).

Table 6. External Source Documentation Supporting the Commission Date of Selected Vessels From the Naval Vessel Register

	Vessels	Amount	Percent of Total Amount
Supported	10	$ 31,653,525	0.5 percent
Unsupported	204	6,546,300,873	99.5 percent
Total	**214**	**$6,577,954,398**	**100.0 percent**

Table 7. External Source Documentation Supporting the Decommission Date of Selected Vessels From the Naval Vessel Register

	Vessels	Amount	Percent of Total Amount
Supported	9	$ 3,904,178	6.2 percent
Unsupported	48	59,001,342	93.8 percent
Total	**57**	**$62,905,520**	**100.0 percent**

The NAVSEA FIP team's flowchart indicated that the Office of the Chief of Naval Operations provided external source documentation for the NVR. External source documentation reviewed from the NVR consisted of items such as news clippings, a commission ceremony invitation, and e-mail traffic. We did not consider these items the most authoritative because the Office of the Chief of Naval Operations did not provide the majority of them. In the future, the Office of the Chief of Naval Operations must provide all external source documentation supporting data captured in the NVR that supports the Navy's financial statements.

Internal Supporting Documentation

The NAVSEA FIP team did not provide internal supporting documentation for all requests in compliance with DoD guidance. For example, we did not receive the requested internal supporting documentation for the following data elements of the nuclear-powered vessels workbook:

- average man days per light ton,
- man days,
- materials,
- adjustment for efficiency,
- hull size factor,
- hull recycling labor cost per type of vessel, and
- pre-hull recycling costs per type of vessel.

In addition, we did not receive the internal supporting documentation needed to verify the net cost component of the average calculated cost per light ton per vessel type used in the non-nuclear vessel workbook. If the NAVSEA FIP team had provided us with the documentation, we could have attempted to determine the reasonableness of the data used to estimate the environmental liabilities reported on the Navy General Fund Balance

Sheet. Because the NAVSEA FIP team did not provide the necessary internal supporting documentation, we were unable to determine whether the environmental liability was reliable and reasonable. The NAVSEA FIP team must ensure that they respond to requests for internal supporting documentation in a timely manner. Providing supporting documentation in a timely manner during a financial statement audit is essential to support the financial statement data and obtain an unqualified opinion on the financial statements.

Client Comments on the Finding and Our Response

Navy Comments

The Comptroller/Deputy Commander of NAVSEA stated that the Navy provided the information for the following in the assertion package:

- average man days per light ton,
- man days,
- materials,
- adjustment for efficiency,
- hull size factor,
- hull recycling labor cost per type of vessel,
- pre-hull recycling costs per type of vessel, and
- net cost component of the average calculated cost per light ton per vessel type.

In addition, she stated that if the DoD OIG auditors requested additional information or explanation, the NAVSEA FIP team provided it in detailed write-ups. She also stated that there were times when the DoD OIG auditors did not go through a central point of contact when requesting documentation. Lastly, she recommended that for future audits or examinations, the DoD OIG auditors and the Department of the Navy establish mutually agreed-upon procedures during the entrance meeting to facilitate the execution of the audit or examination.

Our Response

Statement on Auditing Standards No. 57, "Auditing Accounting Estimates," July 7, 2007, requires auditors to evaluate the reasonableness of accounting estimates made by management. It also states that the auditor should obtain an understanding of how management developed the estimate. We requested the supporting documentation explaining the methodology used to develop the estimates from the central point of contact through site visit meetings, e-mails, and phone conversations on several occasions. However, the NAVSEA FIP team did not provide the additional supporting documentation. Therefore, we were unable to obtain an understanding of how management developed the estimate. In addition, we were not able to determine whether the estimates used in the environmental liability calculation were reasonable. If the estimates used in environmental liability calculation are not reasonable, the amount reported for the Environmental Disposal for Weapon Systems portion of the Environmental Liabilities line item on the Navy General Fund Balance Sheet may be materially misstated.

The Comptroller/Deputy Commander of NAVSEA recommended the use of agreed-upon procedures for future engagements. However, agreed-upon procedures do not apply to our findings. We announced our project as an examination attestation engagement. According to the Financial Improvement and Audit Readiness Plan, December 2005, the assessment phase follows the assertion phase. The purpose of the assessment phase is to assess the reliability of the line item or financial statement that the entity asserted as being ready for audit. During the assessment phase, the DoD OIG performs a limited review of controls and procedures to determine whether the financial information is ready for a full financial audit. The recommended engagement for the assessment is an examination attestation engagement in which the auditor expresses an opinion on the subject matter or management's assertion on the subject matter.

An agreed-upon procedures engagement would be appropriate during the validation phase, not during the assessment phase. According to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer memorandum, "Financial Management Improvement Initiative Assertion Process Business Rules," June 23, 2004, a validation is a limited scope evaluation to determine whether an entity has satisfactorily remedied previously identified deficiencies in its financial statements or line item. This review is the responsibility of management and may be performed by management, internal auditors, or a contractor. The scope of specific procedures required for each validation is the responsibility of management and is determined in the context of the materiality of each issue or action taken in that circumstance. The auditor does not express an opinion in an agreed-upon procedures report but only reports findings based on the specific procedures performed. The report must state that the auditor was not engaged to perform an examination and that if the auditors had performed additional procedures, other matters might have come to their attention that would have been reported. Therefore, an agreed-upon procedures engagement can limit an auditor's procedures and does not determine whether the financial information is ready for a full financial audit.

Recommendations, Client Comments, and Our Response

C. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) ensure that the:

1. Light displacement tonnage is traceable to supporting documentation.

Navy Comments

The Comptroller/Deputy Commander of NAVSEA agreed and stated that the NAVSEA FIP team is working with the point of contact for the HHG to ensure that the team uses the most up-to-date version of this source. The Naval Systems Engineering Directorate agreed to publish an official release of this source once a year.

Our Response
The Department of the Navy comments were responsive. However, we request that the Comptroller/Deputy Commander of NAVSEA provide milestones for the corrective actions when commenting on the final report.

2. Office of the Chief of Naval Operations provides the supporting documentation to the Naval Sea Systems Command Shipbuilding Support Office to support data in the Naval Vessel Register.

Navy Comments
The Comptroller/Deputy Commander of NAVSEA agreed and stated that the NAVSEA FIP team is working with NAVSEA to ensure that official documentation for vessel commissioning and decommissioning dates supports the NVR.

Our Response
The Department of the Navy comments were responsive. We request that the Comptroller/Deputy Commander of NAVSEA provide milestones for the corrective actions when commenting on the final report.

3. External source owners are:

a. Notified that their information is being used to support the Navy's financial statements and

b. Trained on what documentation is needed to properly support a financial statement audit.

Navy Comments
The Department of the Navy did not comment on this recommendation.

Our Response
We request that the Comptroller/Deputy Commander of NAVSEA provide comments on this recommendation and corrective action(s) with milestones in response to the final report.

4. Naval Sea Systems Command Financial Improvement Program team provides documentation that the auditor requests in accordance with the Department of Defense Office of Inspector General memorandum, "Auditor Access for Financial Statement Audits," January 24, 2005.

Navy Comments
The Comptroller/Deputy Commander of NAVSEA disagreed and stated that for future audits/examinations, the DoD OIG and the Department of the Navy should agree on using a central point of contact at the command level to better coordinate efforts among the parties. The DoD OIG reported that supporting information was requested from

SEA 07 and SEA 08. However, SEA 07 and SEA 08 do not agree that the DoD OIG requested the supporting information. In addition, the Comptroller/Deputy Commander of NAVSEA stated that the DoD OIG auditors did not request the source documentation for the HHG from either the central NAVSEA point of contact or the NAVSEA FIP team. She stated that the DoD OIG auditors did not bring this information to the NAVSEA central point of contact until several weeks later when the DoD OIG auditors were debriefing the Office of Financial Operations, Financial Management Office. Furthermore, the Comptroller/Deputy Commander of NAVSEA stated that the DoD OIG auditors did not request the supporting documentation for the NVR from the NAVSEA central point of contact and the NAVSEA FIP team was unaware of what the DoD OIG auditors requested and what information NAVSHIPSO provided.

Our Response

The Department of the Navy comments were partially responsive. As a part of our audit process, we provide an Audit Announcement Memorandum that requests a point of contact for the audit who is a Government employee and at the program director level. At the beginning of the audit, the Navy provided an initial point of contact for the audit and never reassigned this position. However, throughout the audit, our requests were either directed or forwarded to the NAVSEA FIP team representative (a contractor). We initially requested supporting documentation for the HHG from the data owner's point of contact. However, the central NAVSEA FIP team point of contact was aware of our request within 2 days. We also contacted the data owner point of contact to request documentation supporting the NVR. In addition, we made the NAVSEA FIP team point of contact aware of our initial request. We request that the Comptroller/Deputy Commander of NAVSEA reconsider her position and provide corrective action(s) with milestones when commenting on the final report.

Client Comments Required

We request that management provide additional comments in response to the final report. The comments should include elements marked with an X in Table 8.

Table 8. Client Comments Required

Recommendation	Organization	Agree/ Disagree	Proposed Action	Milestone
C.1	Naval Sea Systems Command	--	--	X
C.2	Naval Sea Systems Command	--	--	X
C.3.a., 3.b.	Naval Sea Systems Command	X	X	X
C.4.	Naval Sea Systems Command	X	X	X

Finding D. Internal Controls Over the Nuclear-Powered and Non-Nuclear Vessel Workbooks

The NAVSEA FIP team did not establish adequate internal controls over the workbooks. Specifically, management did not establish sufficient internal controls over the review of the workbooks or adequate control activities over the workbooks. As a result, a high-risk environment[2] contributable by an increased risk of unauthorized changes, misstatements, and unaccountable errors in the workbooks, diminishes the integrity of the workbooks. The NAVSEA FIP team should:

- properly reconcile the data from the workbooks to the external source documentation and internal supporting documentation, as stated in its process memoranda;
- ensure the accuracy and reliability of the data entered into the workbooks; and
- revise standard operating procedures to ensure that control activities are in place and properly working.

Data Elements and Workbook Integrity

The NAVSEA FIP team did not have sufficient internal controls over the workbooks. We reviewed the accuracy of the data elements included in the workbooks. We identified 329 errors out of 2,830 data fields reviewed: 122 errors for nuclear-powered vessels and 207 errors for non-nuclear vessels. Specifically, we identified errors in the following eight data elements:

- commission dates,
- status,
- LDT,
- useful life,
- decommission dates,
- fleet,
- hull number, and
- unit identification code

Out of 2,830 data fields reviewed, we found 262 errors that could cause misstatements on the Navy General Fund Balance Sheet. All errors identified pose a concern for the integrity of the workbooks. See Tables 9 and 10 for the summary of the review and Appendixes E and F for the details.

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[2] A high-risk environment requires the auditors to increase the amount of substantive testing necessary to obtain an acceptable level of audit assurance.

Table 9. Data Input Errors in Workbooks Potentially Affecting Balance Sheet

Data Element	Nuclear-Powered Vessel Errors	Non-Nuclear Vessel Errors	Total Errors
Commission Date	52	38	90
Status	0	8	8
LDT	3	4	7
Useful Life	46	111	157
Total	**101**	**161**	**262**

Table 10. Data Input Errors in Workbooks Not Affecting Balance Sheet

Data Element	Nuclear-Powered Vessel Errors	Non-Nuclear Vessel Errors	Total Errors
Decommission Date	8	6	14
Fleet	11	26	37
Hull Number	0	1	1
Unit Identification Code	2	13	15
Total	**21**	**46**	**67**

The NAVSEA FIP team entered inaccurate data in the workbooks. The commission date, status, LDT, and useful life comprise the data elements in which we identified 262 errors out of 1,616 data fields reviewed that could cause the Navy to misstate its General Fund Balance Sheet. The NAVSEA FIP team used these data elements to compute the environmental liability. If an incorrect commission date, status, LDT, or useful life is used, it could result in either an overstatement or understatement on the Navy General Fund Balance Sheet.

All errors identified pose a concern for the integrity of the workbooks. If the integrity of the workbooks is compromised, they are not reliable and should not be used to calculate Balance Sheet information. Reliability ensures that the information presented is free from error and accurately represents the facts. In addition, it ensures that internal controls are functioning correctly. Furthermore, when auditors assess internal controls as ineffective, they must increase the extent of substantive testing. This could significantly increase the cost and time necessary to complete the audit.

The NAVSEA FIP team must ensure that data entered into the workbooks are accurate. NAVSEA personnel must properly reconcile data to the external source documentation and internal supporting documentation, as stated in its process memoranda.

Specifically, the process memoranda require NAVSEA personnel to perform the following annual updates:

- obtain the latest available HHG to review and then update the LDT amounts for all vessels in the workbooks;
- compare the recorded useful life of the vessels to general property, plant, and equipment records to determine any variances and resolve them. Capital Asset Management System – Military Equipment is the applicable general property, plant, and equipment system for the Navy;
- determine other variables included in the workbooks that need to be updated (that is, the Labor Cost Man Day Rate, the Material Handling percentage, and number of Man days to dispose of vessels); and
- obtain prior fiscal year costs to dispose inactive vessels and update the historical cost spreadsheet.

The NAVSEA personnel performing the annual updates should have previously identified and corrected the errors we identified. Properly performing these updates and reconciliations at least annually will help mitigate future data errors in the workbooks.

Control Activities

The GAO publication GAO/Accounting Information Management Division-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999, states:

> Access to resources and records should be limited to authorized individuals and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

In addition, the publication requires the establishment of controls that ensure only personnel acting within their authority authorize and execute all transactions. The NAVSEA FIP team did not adequately ensure proper access and accountability for resources and records. The NAVSEA FIP team used Microsoft ® Excel software to create the workbooks. The software allows only one password to protect a file. This is an inherent weakness of the software. Without tracking user activity, Microsoft ® Excel allows unauthorized users to make changes to the workbooks. Enabling the track changes feature in the software is one example to mitigate the weakness. The track changes feature would identify each user by their computer login name and subsequently track any changes made by that user. In addition, the NAVSEA FIP team did not maintain a log to record changes. Users could make unauthorized changes to the workbooks that would go unnoticed. Enabling the track changes feature would also mitigate this weakness. The track changes feature can generate a separate report of the changes made to the workbooks.

According to the DoD Regulation 7000.14-R, volume 4, chapter 13, October 2005, the NAVSEA FIP team should retain, for the life of the liability, documentation to support the environmental liability recognition and disclosures, including management reviews.

The NAVSEA FIP team maintained a hard copy of the completed workbooks with signatures. However, we could not specifically identify the preparer or reviewers. In addition, dates were not always included with the signatures. As a result, accountability was lost because the preparer or reviewer could not be identified. In addition, it was undeterminable whether the management review occurred in a timely manner. To eliminate this weakness, the NAVSEA FIP team should legibly identify the preparers and reviewers. This should include the preparer or reviewer's printed name, a title block (that is, preparer or reviewer), a signature line, and date of signature.

Client Comments on the Finding and Our Response

Navy Comments

The Comptroller/Deputy Commander of NAVSEA stated that we did not provide the NAVSEA central point of contact with a listing or accounting of the 327 errors identified. She also stated that we identified 262 errors out of 2,830 data fields that had an impact on the environmental liability estimate but did not provide a summary of those errors.

Our Response

As a result of the Comptroller/Deputy Commander of NAVSEA's comments, we added Appendix E and F to illustrate the errors we identified for each nuclear and non-nuclear vessel.

Recommendations, Client Comments, and Our Response

D. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) ensure the accuracy, reliability, and authenticity of the data entered into the workbooks.

1. Specifically, the Naval Sea Systems Command personnel should:

a. Properly reconcile data from the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels to external source documentation and internal supporting documentation, as stated in its process memoranda.

b. Properly review the formulas and corresponding data in the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels at least annually for accuracy and reliability of the data.

Navy Comments

The Comptroller/Deputy Commander of NAVSEA agreed and stated that NAVSEA will continue its efforts to ensure the effectiveness of internal controls through its Management Internal Control Program. NAVSEA will perform annual testing of the

environmental liability process. In addition, the NAVSEA FIP team will review the memoranda and ensure that they incorporate the recommendations made by the DoD OIG into the documents.

Our Response

The Department of the Navy comments were responsive. We request that the Comptroller/Deputy Commander of NAVSEA provide milestones for the corrective actions when commenting on the final report.

2. Specifically, the Naval Sea Systems Command Financial Improvement Program team should:

a. Ensure access restrictions to and accountability for the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels by:

(1) Requiring a log to record and track changes that identify the change, the user name, and the date of the change.

(2) Ensuring appropriate personnel authorize and perform transactions by including the preparer or reviewer's printed name, a title block, a signature line, and date of signature.

Navy Comments

The Comptroller/Deputy Commander of NAVSEA partially agreed and stated that the NAVSEA FIP team will ensure that the preparer and reviewer include their signatures, a date, printed name, and title on the workbooks after reviewing them. In addition, at the bottom of each worksheet, they will include a username with numbered and dated comments that identify the changes made. However, she went on to state that unauthorized access to the workbooks was a very low risk.

NAVSEA will continue its efforts to ensure the effectiveness of internal controls through its Management Internal Control Program. NAVSEA will perform annual testing of the environmental liability process. The NAVSEA FIP team will review the memoranda and ensure that they incorporate the recommendations made by DoD OIG into the documents.

Our Response

The Department of the Navy comments were partially responsive. Access restriction to and accountability for resources of records not only refers to password protection but also the ability to be accountable for the custody and use of the records. Further, the NAVSEA FIP team should set up the workbooks to document a system-generated record of users accessing the system to help reduce the risk of errors, fraud, misuse, or unauthorized alteration (for example, a log of what was changed, who made the change, and when the change was made). There is no verifiable way to determine these elements. Because the NAVSEA FIP team shares the password, the ability to record who accessed

the program is an inherent weakness. NAVSEA should have alternative steps in place to identify who accessed the program and to document any changes made independent of the user. A system-generated record would strengthen the control environment. By enhancing these controls, NAVSEA will comply with GAO guidance. We request that the Comptroller/Deputy Commander of NAVSEA provide milestones for the corrective actions when commenting on the final report.

Client Comments Required

We request that management provide comments in response to the final report. The comments should include elements marked with an X in Table 11.

Table 11. Client Comments Required

Recommendation	Organization	Agree/ Disagree	Proposed Action	Milestone
D.1.a., 1.b.	Naval Sea Systems Command	--	--	X
D.2.a.(1)., 2.a.(2).	Naval Sea Systems Command	X	X	X

Appendix A. Scope and Methodology

We conducted this attestation engagement from May 2007 through June 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the attestation engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our attestation objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our attestation objectives.

The scope of this attestation engagement was limited to the review of the Navy Weapons Systems portion of the Environmental Liabilities reported as of March 31, 2007. We reviewed pertinent Federal and DoD regulations, policies, and GAO guidance relating to environmental liabilities and internal controls. We reviewed the Balance Sheet and related Note 14 based on the Navy's assertion and recalculated the amounts in the workbooks and the spent nuclear fuel disposal estimate to verify the accuracy of the environmental liabilities. In addition, we verified that totals included in the Balance Sheet and related footnote were traceable to the workbooks; reconciled the nuclear-powered and non-nuclear vessels included in the workbooks to the vessels listed in the NVR; verified that the environmental liabilities were recorded in the proper accounting period; determined whether the vessels were properly classified as active, inactive, or disposed; determined whether the environmental liabilities were the responsibility of the Navy; and verified that the financial information was appropriately presented and described, and disclosures were clearly expressed in Note 14.

We reviewed the external source documentation for data elements included in the workbooks. Specifically, we reviewed external source documentation of 32 vessels to verify the LDT for each vessel. We chose the 32 vessels from a universe of 388 vessels included in the workbooks. NAVSEA personnel provided the external documentation in support of only 21 of the vessels that were included in the HHG. We also reviewed external source documentation of 214 vessels to verify the commission and decommission dates for each vessel. We chose the 214 vessels from a universe of 388 vessels included in the workbooks. NAVSHIPSO provided the external documentation in support of the vessels that were included in the NVR.

We attempted to review the internal supporting documentation for the following data elements included in the workbooks:

- average man days per light ton,
- man days,
- materials,
- adjustment for efficiency,
- hull size factor,
- hull recycling labor cost per type of vessel, and
- pre-hull recycling costs per type of vessel.

We performed this attestation engagement at various locations including NAVSEA Headquarters in Washington Navy Yard in Washington, D.C., NAVSEA Shipbuilding Support Office in Philadelphia, and Naval Reactors Facility in Idaho Falls. We contacted and interviewed representatives at each site listed.

Our original objective was to perform an examination and attest to the audit readiness of the Navy Weapons Systems Environmental Liabilities. We intended to attest to all of the management assertions. However, we did not consider the existence assertion related to the nuclear and non-nuclear vessels (assets) because of resource constraints. The Navy asserted on a line item that is primarily an estimate based on its assets. In addition, it is our position that the existence assertion should be examined when the Navy asserts the audit readiness of a line item related to the assets. There was no impact on the outcome of the audit readiness of the Navy Weapons Systems Environmental Liabilities by us not testing the existence assertion.

Review of Internal Controls

We identified significant internal control weaknesses for the NAVSEA FIP team as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. The NAVSEA FIP team did not have internal controls in place to:

- verify that the formulas used to calculate the environmental liability were correct;
- report all of the disposal costs related to its weapons systems in its environmental liability estimate;
- ensure that the external source or internal supporting documentation is adequate and provided in a timely manner;
- reconcile the data from the workbooks to the external source documentation and internal supporting documentation; and
- ensure the accuracy and reliability of the data entered into the workbooks.

Implementing Recommendations A.1-2, B., C.1-4, and D.1-2 will improve the NAVSEA FIP team's internal controls over the reporting of the Environmental Disposal for Weapons Systems portion of the Environmental Liabilities line item. We will provide a copy of the final report to the senior official responsible for internal controls in the NAVSEA FIP team.

Use of Computer-Processed Data

To achieve the audit objectives, we relied on computer-processed data from the Aircraft Inventory Readiness Reporting System to identify aircraft used by the Navy. Although we did not formally assess the reliability of the computer-processed data, we determined that the entries included in the computer-processed data were reasonable. We did not find any unreasonable entries that would preclude the use of the computer-processed data to meet the audit objectives or that would change the audit results.

Use of Technical Assistance

The DoD OIG Quantitative Methods Directorate assisted with the audit. See Appendix G for detailed information about the work performed by the Quantitative Methods Directorate.

Prior Coverage

During the last 5 years, the GAO, the DoD Inspector General (IG), and the Naval Audit Service have issued three reports discussing environmental liabilities. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DoD Office of the Inspector General reports can be accessed at http://www.dodig.mil/audit/reports.

GAO

Report No. GAO-06-427, "Environmental Liabilities: Long-Term Fiscal Planning Hampered by Control Weaknesses and Uncertainties in the Federal Government's Estimates," March 2006

DoD IG

Report No. D-2004-080, "Environmental Liabilities Required To Be Reported on Annual Financial Statements," May 5, 2004

Naval Audit Service

Report No. N2005-0050, "Agreed-Upon Procedures Attestation Engagement of Department of the Navy General Fund, Fiscal Year 2004 Environmental Liabilities Account," July 15, 2005

Appendix B. Glossary

Adjustment for Efficiency. An adjustment for efficiency is applicable when two disposal processes can be completed at the same location. The cost savings of not having to transport the vessel to a second location to perform part of the process is recognized.

Approval to Decommission, Strike, and Dispose Order. An Approval to Decommission, Strike, and Dispose Order is a memorandum from the Office of the Chief of Naval Operations that provides a(n) approximate date of decommissioning, recommendation to strike the vessel from the NVR, and subsequently, final disposal of the vessels.

Commission Date. The commission date is the date of placing a vessel into active military duty.

Commissioning Order. A Commissioning Order is a memorandum from the Office of the Chief of Naval Operations that provides an approximate date of commissioning and directions for the Commanding Officer.

Decommission Date. The decommission date is the date of the vessel's removal from active military duty.

Fleet. A fleet is the largest organized unit of naval vessels grouped for tactical or other purposes. They are generally assigned to a particular ocean.

Historical Inventory. The historical inventory sheet summarizes the data for all of the decommissioned vessels that have been completely disposed.

Hull Number. A hull number is a serial identification number given to a vessel.

Hull Size Factor. The hull size factor is an adjustment to the disposal costs for the additional material and labor needed when a vessel's hull size is much larger than the average hull size.

Information Request. An Information Request is a memorandum from the Office of the Chief of Naval Operations, Department of the Navy Program Information Center that provides an approximate date of commissioning and vessels stricken from the NVR.

Light Displacement Tonnage. The light displacement tonnage is the weight of a vessel when it is complete and ready for service, including permanent ballast (solid and liquid), and liquids in machinery at operating levels but without officers, men, their effects, ammunition, or any items of consumable or variable load.

Man Days. Man days is the number of days needed to handle the inactivation for a vessel.

Non-Nuclear Vessel. A non-nuclear vessel burns a petroleum-based fuel to generate power for propulsion and for operating shipboard equipment.

Nuclear-Powered Vessel. A nuclear-powered vessel uses an onboard nuclear reactor to generate power for propulsion and shipboard equipment.

Significant Deficiency. A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected.

Spent Nuclear Fuel. Spent nuclear fuel consists of fuel elements and material test specimens that have been removed from nuclear reactors. These spent fuels are radioactive and must be stored in special facilities that shield and cool the materials.

Status. The status categorizes a vessel into a specific grouping. It identifies where a particular vessel is in its life cycle.

Unit Identification Code. The unit identification code is the number assigned to serve as a permanent identification of the vessel for fiscal purposes.

Useful Life. The useful life is the typical operating service life of an asset for the purpose it was acquired.

Weapons System. A weapons system is a combination of one or more weapons with all related equipment, materials, services, personnel, and means of delivery and deployment required for self-sufficiency.

Appendix C. Misstatements in Aggregate

GAO/President's Council on Integrity and Efficiency, "Financial Audit Manual," Part I, July 2001, with July 2004 updates, Section 230, "Determine Planning, Design, and Test Materiality," defines test materiality as the materiality actually used by the auditor in testing a specific line item, account, or class of transactions. Generally, the test materiality used for a specific test is the same as the design materiality. We based the design materiality upon the planning materiality of $562.7 million, which we calculated in relation to the element of the financial statements that was most significant to the primary users of the statements. This element represents the materiality base. The materiality base used was the Environmental and Disposal Liabilities line item totaling $18.8 billion. Based on this guidance, we determined the preliminary design and test materiality thresholds for this audit to be $187.6 million as follows.

$18,755,882,874 x .03 = $562,676,486 (Planning Materiality)
$562,676,486 x .33 = $187,558,829 (Design and Test Materiality)

The table shows the amount of misstatements found during our audit work. The Environmental Liability Disposal for Weapons Systems was valued at $13.1 billion. Had we used the Environmental Liability Disposal for Weapons Systems amount of $13.1 billion as the materiality base, the test materiality threshold would have been $131.0 million. In turn, this would have made the absolute value of $158.6 million (1.2 percent) in misstatements found in the Environmental Liability Disposal for Weapons Systems material.

Misstatements in Aggregate

	Net Value	Absolute Value	Environmental Liability Disposal for Weapons Systems	Absolute Value Percent
Nuclear	($ 16,993,695.99)	$ 25,438,601.35		
Non-Nuclear	(3,961,122.36)	5,381,925.36		
Completeness (Aircraft Disposal)	(127,748,708.36)	127,748,708.36*		
Total	**($148,703,526.71)**	**$158,569,235.07**	**13,095,037,590.02**	**1.2 percent**

* This absolute amount only represents two aircraft out of the numerous aircraft owned by the Navy.

Appendix D. Unsupported Commission Date Detail

Count	Class	Hull	Name	Environmental Liability
1	AFS	0009	Spica	$ 364,238.89
2	AGF	0003	Lasalle	341,181.73
3	AGOR	0015	Knorr	133,775.92
4	AGOR	0023	Thomas G. Thompson	189,662.58
5	AGOS	0004	Triumph	55,858.29
6	AKE	T-AKE-1	Lewis & Clark	846,009.51
7	AO	0187	Henry J Kaiser	339,075.89
8	AO	0193	Walter S Diehl	339,075.89
9	AO	0196	Kanawha	339,075.89
10	AO	0197	Pecos	339,075.89
11	AO	0198	Big Horn	339,075.89
12	AO	0200	Guadalupe	339,075.89
13	AO	0201	Patuxent	339,075.89
14	AO	0203	Laramie	339,075.89
15	AO	0204	Rappahannock	339,075.89
16	AOE	0002	Camden	737,258.05
17	AOE	0007	Rainier	736,437.13
18	AOE	0008	Arctic	739,970.66
19	ARS	0051	Grasp	416,182.18
20	ARS	0053	Grapple	407,405.33
21	AS	0039	Emory S Land	2,341,503.51
22	ATF	0169	Navajo	221,336.15
23	ATF	0170	Mohawk	49,505.08
24	ATF	0171	Sioux	221,336.15
25	BB	0061	Iowa	9,206,623.64
26	BB	0064	Wisconsin	9,197,064.13
27	CG	0030	Horne	545,048.88
28	CG	0033	Fox	553,321.87
29	CG	0048	Yorktown	668,967.63
30	CG	0049	Vincennes	659,022.45
31	CG	0051	Thomas S. Gates	640,452.24
32	CG	0056	San Jacinto	629,450.93
33	CG	0057	Lake Champlain	644,412.71
34	CG	0058	Philippine Sea	610,968.73
35	CG	0059	Princeton	629,538.94
36	CG	0061	Monterey	631,563.18
37	CG	0062	Chancellorsville	632,971.35
38	CG	0063	Cowpens	631,739.20
39	CG	0065	Chosin	635,435.64
40	CG	0069	Vicksburg	636,139.72

Count	Class	Hull	Name	Environmental Liability
41	CG	0072	Vella Gulf	630,859.09
42	CG	0073	Port Royal	636,403.75
43	CGN	CGN 37	South Carolina	64,577,273.80
44	CGN	CGN 40	Mississippi	64,577,273.80
45	CGN	CGN 9	Long Beach	77,481,742.00
46	CV	0062	Independence	5,285,821.20
47	CV	0063	Kitty Hawk	5,380,344.45
48	CV	0064	Constellation	5,456,033.46
49	CV/AVT	0059	Forrestal	5,162,430.51
50	CVN 65	CVN 65	Enterprise	802,438,217.40
51	CVN 68	CVN 68	Nimitz	661,121,999.41
52	CVN 68	CVN 69	Dwight D. Eisenhower	663,202,512.04
53	CVN 68	CVN 71	Theodore Roosevelt	675,471,153.48
54	CVN 68	CVN 74	John C. Stennis	674,256,663.47
55	DD	0963	Spruance	575,878.84
56	DD	0979	Conolly	570,690.74
57	DD	0981	John Hannock	567,664.35
58	DDG	0037	Farragut	811,459.51
59	DDG	0051	Arleigh Burke	1,071,413.79
60	DDG	0052	Barry	1,096,467.71
61	DDG	0053	John Paul Jones	1,094,233.60
62	DDG	0055	Stout	1,091,999.49
63	DDG	0056	John S McCain	1,081,467.27
64	DDG	0057	Mitscher	1,094,871.91
65	DDG	0058	Laboon	1,079,871.48
66	DDG	0061	Ramage	1,094,552.76
67	DDG	0062	Fitzgerald	1,092,159.07
68	DDG	0063	Stethem	1,102,531.71
69	DDG	0064	Carney	1,086,254.65
70	DDG	0065	Benfold	1,105,084.97
71	DDG	0066	Gonzalez	1,084,658.85
72	DDG	0067	Cole	1,088,648.33
73	DDG	0069	Milius	1,099,978.44
74	DDG	0070	Hopper	1,082,743.91
75	DDG	0073	Decatur	1,016,573.31
76	DDG	0075	Donald Cook	1,012,989.62
77	DDG	0076	Higgins	1,019,217.76
78	DDG	0080	Roosevelt	1,068,022.74
79	DDG	0081	Winston S. Churchill	1,067,194.07
80	DDG	0084	Bulkeley	1,065,666.67
81	DDG	0085	McCampbell	1,084,698.75
82	DDG	0086	Shoup	1,051,306.83
83	DDG	0088	Preble	1,070,541.81
84	DDG	0091	Pinckney	1,101,549.16

Count	Class	Hull	Name	Environmental Liability
85	DDG	0092	Momsen	1,114,198.08
86	DDG	0093	Chung-Hoon	1,101,705.32
87	DDG	0097	Halsey	1,097,477.61
88	DDG	0098	Forrest Sherman	1,098,775.90
89	DDG	0099	Farragut	1,097,666.83
90	DDG	0101	Gridley	1,101,095.50
91	FFG	0012	George Philip	546,344.67
92	FFG	0014	Sides	560,897.50
93	FFG	0033	Jarrett	553,007.41
94	FFG	0036	Underwood	561,774.18
95	FFG	0041	McClusky	561,248.17
96	FFG	0046	Rentz	549,325.37
97	FFG	0047	Nicholas	562,826.19
98	FFG	0048	Vandegrift	556,338.78
99	FFG	0050	Taylor	553,884.09
100	FFG	0053	Hawes	551,604.73
101	FFG	0054	Ford	555,286.77
102	FFG	0059	Kauffman	560,020.82
103	LCC	0019	Blue Ridge	1,157,513.79
104	LHA	0002	Saipan	2,419,496.01
105	LHA	0004	Nassau	2,361,497.10
106	LHA	0005	Peleliu	2,373,202.50
107	LHD	0002	Essex	2,454,172.13
108	LHD	0005	Bataan	2,448,891.51
109	LHD	0007	Iwo Jima	2,351,043.66
110	LKA	0113	Charleston	895,594.61
111	LKA	0114	Durham	874,560.10
112	LKA	0115	Mobile	879,840.73
113	LPD	0004	Austin	809,080.31
114	LPD	0007	Cleveland	880,104.76
115	LPD	0009	Denver	874,912.15
116	LSD	0041	Whidbey Island	1,016,344.98
117	LSD	0042	Germantown	1,011,768.44
118	LSD	0048	Ashland	1,017,489.12
119	LSD	0050	Carter Hall	1,026,202.15
120	LSD	0052	Pearl Harbor	934,506.79
121	LST	1187	Tuscaloosa	439,348.30
122	LST	1191	Racine	438,292.17
123	MCM	0002	Defender	236,617.77
124	MCM	0005	Guardian	235,682.52
125	MCM	0007	Patriot	236,243.67
126	MCM	0008	Scout	234,560.22
127	MCM	0014	Chief	248,401.89
128	MHC	0054	Robin	32,265.75

Count	Class	Hull	Name	Environmental Liability
129	MHC	0055	Oriole	28,732.22
130	MHC	0057	Cormorant	169,654.00
131	MHC	0059	Falcon	29,374.68
132	MHC	0062	Shrike	144,896.12
133	PC	0005	Typhoon	53,870.29
134	PC	0006	Sirocco	53,870.29
135	PC	0007	Squall	53,870.29
136	PC	0009	Chinook	53,870.29
137	PG	0085	Gallup	6,424.60
138	PG	0100	Lauren/Douglas	6,424.60
139	SS	0572	Sailfish	72,455.16
140	SSBN	SSBN 626	Daniel Webster	48,539,593.38
141	SSBN	SSBN 635	Sam Rayburn	48,539,593.38
142	SSBN	SSBN 730	Henry M. Jackson	71,550,921.00
143	SSBN	SSBN 732	Alaska	71,550,921.00
144	SSBN	SSBN 733	Nevada	71,550,921.00
145	SSBN	SSBN 735	Pennsylvania	71,550,921.00
146	SSBN	SSBN 736	West Virginia	71,550,921.00
147	SSBN	SSBN 739	Nebraska	71,550,921.00
148	SSBN	SSBN 740	Rhode Island	71,550,921.00
149	SSBN	SSBN 741	Maine	71,550,921.00
150	SSBN	SSBN 742	Wyoming	71,550,921.00
151	SSBN	SSBN 743	Louisiana	71,550,921.00
152	SSGN	SSGN 727	Michigan	71,550,921.00
153	SSGN	SSGN 728	Florida	71,550,921.00
154	SSGN	SSGN 729	Georgia	71,550,921.00
155	SSN	SSN 571	Nautilus	17,077,342.62
156	SSN	SSN 586	Triton	22,798,685.26
157	SSN	SSN 671	Narwhal	18,668,307.32
158	SSN	SSN 688	Los Angeles	49,105,758.00
159	SSN	SSN 692	Omaha	18,456,266.92
160	SSN	SSN 693	Cincinnati	18,456,266.92
161	SSN	SSN 695	Birmingham	18,456,266.92
162	SSN	SSN 696	New York City	18,456,266.92
163	SSN	SSN 697	Indianapolis	18,456,266.92
164	SSN	SSN 698	Bremerton	37,857,300.00
165	SSN	SSN 699	Jacksonville	37,857,300.00
166	SSN	SSN 700	Dallas	37,857,300.00
167	SSN	SSN 701	La Jolla	37,857,300.00
168	SSN	SSN 702	Phoenix	18,456,266.92
169	SSN	SSN 704	Baltimore	18,456,266.92
170	SSN	SSN 705	City of Corpus Christi	37,857,300.00
171	SSN	SSN 706	Albuquerque	37,857,300.00
172	SSN	SSN 707	Portsmouth	18,456,266.92

Count	Class	Hull	Name	Environmental Liability
173	SSN	SSN 708	Minneapolis- St. Paul	47,365,093.10
174	SSN	SSN 709	Hyman G. Rickover	47,365,093.10
175	SSN	SSN 710	Augusta	47,365,093.10
176	SSN	SSN 711	San Francisco	37,857,300.00
177	SSN	SSN 714	Norfolk	37,857,300.00
178	SSN	SSN 715	Buffalo	37,857,300.00
179	SSN	SSN 716	Salt Lake City	18,456,266.92
180	SSN	SSN 718	Honolulu	37,857,300.00
181	SSN	SSN 719	Providence	37,857,300.00
182	SSN	SSN 720	Pittsburgh	37,857,300.00
183	SSN	SSN 721	Chicago	37,857,300.00
184	SSN	SSN 723	Oklahoma City	37,857,300.00
185	SSN	SSN 725	Helena	37,857,300.00
186	SSN	SSN 750	Newport News	37,857,300.00
187	SSN	SSN 751	San Juan	37,857,300.00
188	SSN	SSN 753	Albany	37,857,300.00
189	SSN	SSN 754	Topeka	37,857,300.00
190	SSN	SSN 756	Scranton	37,857,300.00
191	SSN	SSN 758	Asheville	37,857,300.00
192	SSN	SSN 759	Jefferson City	37,857,300.00
193	SSN	SSN 760	Annapolis	37,857,300.00
194	SSN	SSN 761	Springfield	37,857,300.00
195	SSN	SSN 762	Columbus	37,857,300.00
196	SSN	SSN 763	Santa Fe	37,857,300.00
197	SSN	SSN 765	Montpelier	37,857,300.00
198	SSN	SSN 766	Charlotte	37,857,300.00
199	SSN	SSN 767	Hampton	37,857,300.00
200	SSN	SSN 768	Hartford	37,857,300.00
201	SSN	SSN 769	Toledo	37,857,300.00
202	SSN	SSN 770	Tucson	37,857,300.00
203	SSN	SSN 771	Columbia	37,857,300.00
204	SSN	SSN 773	Cheyenne	37,857,300.00
	Total			**$6,546,300,873.50**

Appendix E. Data Input Errors in Nuclear Workbook

Hull Number	Vessel Name	Commission Date	LDT	Useful Life	Decommission Date	Fleet	UIC	Total Errors Per Vessel
SSBN 730	Henry M. Jackson			X				1
SSBN 731	Alabama	X		X				2
SSBN 732	Alaska			X		X		2
SSBN 733	Nevada			X				1
SSBN 734	Tennessee			X				1
SSBN 735	Pennsylvania	X		X				2
SSBN 736	West Virginia			X				1
SSBN 737	Kentucky			X				1
SSBN 738	Maryland			X				1
SSBN 739	Nebraska			X				1
SSBN 740	Rhode Island			X				1
SSBN 741	Maine	X		X		X		3
SSBN 742	Wyoming			X				1
SSBN 743	Louisiana			X		X		2
SSGN 726	Ohio			X		X		2
SSGN 727	Michigan			X		X		2
SSGN 728	Florida			X		X		2
SSGN 729	Georgia			X		X		2
SSN 21	Seawolf			X		X		2
SSN 688	Los Angeles	X						1
SSN 690	Philadelphia	X						1
SSN 691	Memphis	X						1
SSN 698	Bremerton	X						1
SSN 699	Jacksonville	X						1
SSN 700	Dallas	X						1
SSN 701	La Jolla	X						1
SSN 710	Augusta	X						1
SSN 711	San Francisco	X						1
SSN 713	Houston	X						1
SSN 714	Norfolk	X						1
SSN 715	Buffalo	X						1
SSN 717	Olympia	X						1
SSN 719	Providence	X						1

Hull Number	Vessel Name	Commission Date	LDT	Useful Life	Decommission Date	Fleet	UIC	Total Errors Per Vessel
SSN 720	Pittsburgh	X						**1**
SSN 721	Chicago	X						**1**
SSN 722	Key West	X						**1**
SSN 723	Oklahoma City	X						**1**
SSN 724	Louisville	X						**1**
SSN 725	Helena	X						**1**
SSN 750	Newport News	X						**1**
SSN 751	San Juan	X						**1**
SSN 752	Pasadena	X						**1**
SSN 753	Albany	X						**1**
SSN 754	Topeka	X						**1**
SSN 755	Miami	X						**1**
SSN 756	Scranton	X						**1**
SSN 757	Alexandria	X						**1**
SSN 758	Asheville	X						**1**
SSN 759	Jefferson City	X						**1**
SSN 760	Annapolis	X						**1**
SSN 761	Springfield	X						**1**
SSN 762	Columbus	X						**1**
SSN 763	Santa Fe	X						**1**
SSN 764	Boise	X						**1**
SSN 765	Montpelier	X						**1**
SSN 766	Charlotte	X				X		**2**
SSN 767	Hampton	X				X		**2**
SSN 768	Hartford	X						**1**
SSN 769	Toledo	X						**1**
SSN 770	Tucson	X						**1**
SSN 771	Columbia	X						**1**
SSN 772	Greenville	X						**1**
SSN 773	Cheyenne	X						**1**
NR1	NR1	X						**1**
AS 0039*	Emory S. Land		X	X				**2**
AS 0040*	Frank Cable		X	X				**2**
SSN 22	Connecticut					X		**1**

Hull Number	Vessel Name	Commission Date	LDT	Useful Life	Decommission Date	Fleet	UIC	Total Errors Per Vessel
SSN 23	Jimmy Carter		X					**1**
SSN 683	Parche	X		X	X			**3**
CGN 9	Long Beach			X				**1**
CGN 37	South Carolina			X				**1**
CGN 40	Mississippi			X				**1**
SSBN 626	Daniel Webster			X				**1**
SSBN 635	Sam Rayburn			X				**1**
SSN 571	Nautilus			X				**1**
SSN 586	Triton			X	X			**2**
SSN 671	Narwhal			X				**1**
SSN 677	Drum			X				**1**
SSN 692	Omaha			X				**1**
SSN 693	Cincinnati			X	X			**2**
SSN 694	Groton			X				**1**
SSN 695	Birmingham			X				**1**
SSN 696	New York City			X				**1**
SSN 697	Indianapolis			X				**1**
SSN 702	Phoenix			X				**1**
SSN 704	Baltimore			X				**1**
SSN 707	Portsmouth			X				**1**
SSN 709	Hyman G. Rickover			X	X			**2**
SSN 712	Atlanta			X				**1**
SSN 716	Salt Lake City			X	X			**2**
SSN 718	Honolulu	X		X	X			**3**
AS 0033*	Simon Lake	X		X	X		X	**4**
AS 0041*	McKee	X		X	X		X	**4**
Total	**93**	**52**	**3**	**46**	**8**	**11**	**2**	**122**

* These vessels are included on the nuclear and non-nuclear list because they have a nuclear component that must be accounted for.

Appendix F. Data Input Errors in Non-Nuclear Workbook

Hull Number	Vessel Name	Commission Date	Status	LDT	Useful Life	Decommission Date	Fleet	Hull Number	UIC	Total Errors Per Vessel
AE 0026	Kilauea		X		X					2
AE 0032	Flint				X					1
AE 0033	Shasta				X					1
AE 0034	Mount Baker				X					1
AE 0035	Kiska				X					1
AFS 0003	Niagara Falls				X					1
AFS 0005	Concord				X		X			2
AFS 0007	San Jose				X					1
AFS 0009	Spica	X			X		X			3
AFS 0010	Saturn	X			X					2
AGOR 0014	Melville				X					1
AGOR 0015	Knorr				X					1
AGOR 0023	Thomas G. Thompson				X					1
AGOR 0024	Roger Revelle				X					1
AGOS 0019	Victorious	X			X					2
AGOS 0021	Effective				X				X	2
AGOS 0022	Loyal	X			X		X		X	4
AGOS 0023	Impeccable	X			X		X		X	4
AO 0187	Henry J. Kaiser	X	X						X	3
AO 0189	John Lenthall	X								1
AO 0193	Walter S. Diehl	X							X	2
AO 0194	John Ericsson	X								1
AO 0195	Leroy Grumman	X								1
AO 0196	Kanawha	X								1
AO 0197	Pecos	X								1
AO 0198	Big Horn	X								1
AO 0199	Tippecanoe	X								1
AO 0200	Guadalupe	X								1
AO 0201	Patuxent	X								1
AO 0202	Yukon	X								1
AO 0203	Laramie	X								1
AO 0204	Rappahannock	X								1
ARS 0050	Safeguard		X							1

Hull Number	Vessel Name	Commission Date	Status	LDT	Useful Life	Decommission Date	Fleet	Hull Number	UIC	Total Errors Per Vessel
ARS 0051	Grasp		X							**1**
ARS 0052	Salvor		X							**1**
ARS 0053	Grapple		X				X			**2**
ATF 0168	Catawba	X			X					**2**
ATF 0169	Navajo	X			X					**2**
ATF 0171	Sioux	X			X					**2**
ATF 0172	Apache	X			X				X	**3**
CV 0067	John F. Kennedy				X					**1**
DDG 0051	Arleigh Burke				X					**1**
DDG 0059	Russell								X	**1**
FFG 0008	McInerney				X					**1**
FFG 0033	Jarrett								X	**1**
FFG 0050	Taylor								X	**1**
LCC 0020	Mount Whitney		X							**1**
LHA 0002	Saipan						X			**1**
LPD 0007	Cleveland				X					**1**
LPD 0008	Dubuque				X					**1**
LPD 0009	Denver				X				X	**2**
LPD 0010	Juneau				X					**1**
LPD 0012	Shreveport				X					**1**
LPD 00013	Nashville				X					**1**
LPD 0014	Trenton				X		X			**2**
LPD 0015	Ponce				X					**1**
LSD 0043	Fort McHenry						X			**1**
LSD 0046	Tortuga						X			**1**
LSD 0049	Harpers Ferry	X								**1**
MCM 0003	Sentry						X			**1**
MCM 0004	Champion						X			**1**
MCM 0005	Guardian						X			**1**
MCM 0006	Devastator						X			**1**
MCM 0007	Patriot						X			**1**
MCM 0008	Scout						X			**1**
MCM 0009	Pioneer						X			**1**
MCM 0010	Warrior						X			**1**

Hull Number	Vessel Name	Commission Date	Status	LDT	Useful Life	Decommission Date	Fleet	Hull Number	UIC	Total Errors Per Vessel
MCM 0011	Gladiator	X					X			**2**
MCM 0012	Ardent						X			**1**
MCM 0013	Dextrous						X			**1**
MCM 0014	Chief						X			**1**
MHC 0052	Heron						X			**1**
MHC 0053	Pelican						X			**1**
PC 0003	Hurricane				X					**1**
PC 0005	Typhoon				X					**1**
PC 0006	Sirocco				X					**1**
PC 0007	Squall				X					**1**
PC 0009	Chinook				X					**1**
PC 0010	Firebolt				X					**1**
PC 0011	Whirlwind				X					**1**
PC 0012	Thunderbolt				X					**1**
T-AKE-1	Lewis & Clark	X								**1**
T-AKE-2	Sacagawea	X								**1**
DDG 0101	Gridley	X		X						**2**
LPD 0017	San Antonio			X						**1**
LPD 0018	New Orleans			X						**1**
AGOR 0025	Atlantis	X								**1**
AGOR 0026	Kilo Moana	X			X					**2**
AD 0038	Puget Sound				X					**1**
AD 0042	Acadia				X					**1**
AE 0028	Santa Barbara				X					**1**
AGF 0003	La Salle				X					**1**
AGOS 0004	Triumph	X			X	X				**3**
AGOS 0020	Able	X			X	X				**3**
AO 0190	Higgins	X			X	X				**3**
AO 0188	Joshua Humphreys	X	X			X	X			**4**
AOE 0001	Sacramento				X					**1**
AOE 0002	Camden				X					**1**
AOE 0003	Seattle				X					**1**
AS 0033	Simon Lake				X					**1**
AS 0036	Spear				X					**1**

Hull Number	Vessel Name	Commission Date	Status	LDT	Useful Life	Decommission Date	Fleet	Hull Number	UIC	Total Errors Per Vessel
AS 0041	McKee				X					**1**
ATF 0170	Mohawk	X			X	X				**3**
CV/AVT 0059	Forrestal				X					**1**
BB 0061	Iowa				X					**1**
BB 0064	Wisconsin				X					**1**
CG/CA 0134	Des Moines	X			X					**2**
CG 0029	Jouett				X					**1**
CG 0030	Horne				X					**1**
CG 0033	Fox				X					**1**
CG 0047	Ticonderoga				X					**1**
CG 0048	Yorktown				X					**1**
CG 0049	Vincennes				X					**1**
CG 0050	Valley Forge				X					**1**
CG 0051	Thomas S. Gates				X					**1**
CV 0060	Saratoga				X					**1**
CV 0061	Ranger				X					**1**
CV 0062	Independence				X					**1**
CV 0064	Constellation				X					**1**
DD 0931	Forrest Sherman				X					**1**
DD 0946	Edson				X					**1**
DD 0971	David R. Ray				X					**1**
DD 0979	Conolly				X					**1**
DD 0980	Moosbrugger				X					**1**
DD 0981	John Hancock				X					**1**
DD 0987	O'Bannon				X					**1**
DD 0992	Fletcher				X					**1**
DDG 0002	Adams				X					**1**
DDG 0037	Farragut				X				X	**2**
FF 1052	Knox				X					**1**
LKA 0113	Charleston				X					**1**
LKA 0114	Durham				X					**1**
LKA 0115	Mobile				X					**1**
LKA 0116	St. Louis				X					**1**
LKA 0117	El Paso				X					**1**

Hull Number	Vessel Name	Commission Date	Status	LDT	Useful Life	Decommission Date	Fleet	Hull Number	UIC	Total Errors Per Vessel
LPD 0004	Austin				X		X			**2**
LPD 0006	Duluth				X					**1**
LPD 0005	Ogden	X			X		X		X	**4**
LPH 0011	New Orleans				X					**1**
LSD 0036	Anchorage				X					**1**
LSD 0040	Fort Fisher				X					**1**
LST 1182	Fresno				X					**1**
LST 1187	Tuscaloosa				X					**1**
LST 1189	Boulder				X			X		**2**
LST 1191	Racine				X					**1**
PG 0085	Gallup				X	X				**2**
PG 0090	Canon				X					**1**
PG 0100	Lauren/Douglas			X	X					**2**
SS 0566	Trout				X					**1**
SS 0572	Sailfish				X					**1**
MHC 0054	Robin	X							X	**2**
CV 0034	Oriskany				X					**1**
DD 0974	Comte De Grasse				X					**1**
DD 0975	O'Brien				X					**1**
DD 0978	Stump				X					**1**
AE 0027	Butte				X					**1**
AFS 0001	Mars				X					**1**
WMEC 0168	Yocona				X					**1**
AFS 0006	San Diego				X					**1**
Total	**159**	**38**	**8**	**4**	**111**	**6**	**26**	**1**	**13**	**207**

Appendix G. Attribute Sampling Methodology

Sampling Plan

Sampling Purpose

We used an attribute sampling plan developed by the DoD OIG Quantitative Methods Directorate to determine the number of vessels associated with the status of vessels (commissioned prior to October 1, 1997; commissioned after September 30, 1997; or inactive). The results of our testing allowed us to determine the reliability of data coming from the Naval Vessel Register.

Sample Design

We applied attribute sampling to vessels included in the workbooks. The Quantitative Methods Directorate designed the sample plan by type of vessel (nuclear or non-nuclear) and vessel status within each type. They based the plan on a 90 percent confidence interval with a 5 percent precision. The audit team used a random sample from each type and status of vessels, and reviewed documentation supporting the commission and decommission dates. We did not use statistical sampling to project our audit result; therefore, there are no sampling results. The table identifies the type, status, and number of randomly selected sample items tested.

Sampling Plan

Nuclear Vessels Sampled		
Status	**Population**	**Sample Size**
Commissioned Pre Oct. 1, 1997	75	54
Commissioned Post Sept. 30, 1997	6	6
Inactive	23	20
Total Nuclear Vessels	**104***	**80***
Non-Nuclear Vessels Sampled		
Commissioned Pre Oct. 1, 1997	174	85
Commissioned Post Sept. 30, 1997	40	20
Inactive	70	35
Total Non-Nuclear Vessels	**284**	**140**
Grand Total	**388***	**220***

*** The original number of Nuclear Vessels included an additional 10 vessels in a category of Nuclear Carriers for a total population of 114 and sample of 90. However, because these 10 vessels were already included in the other categories, we excluded them from the count.**

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
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WASHINGTON DC 20350-1000

7502
FMO

JUL 2 1 2008

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: DEPARTMENT OF THE NAVY RESPONSE TO DODIG ATTESTATION ON ENVIRONMENTAL DISPOSAL FOR WEAPONS SYSTEMS AUDIT READINESS (PROJECT NO. D2007-D000FN-0183.000

Ref: (a) DoD IG memorandum of 20 June 2008

Encl: (1) DON Comments

By reference (a), you requested comments in response to your draft report relating to the DON's Environmental Disposal for Weapons Systems program's Audit Readiness Assertion. Enclosure (1) is provided as DON comments. It provides a detailed response to each recommendation from the Naval Sea Systems Command (NAVSEA) perspective. We concur with each recommendation and will take appropriate action to include adjustments to the DON Financial Improvement Plan (FIP) where applicable.

I'm particularly interested in better understanding why the report appears to put the estimated understatement of Environmental liabilities of $21.0 million as of 31 March 2007 in such a negative light. The relatively small estimated financial understatement described in the report ($21.0 million (or .16%) against a $13.1 billion program) appears immaterial from a financial audit perspective. Conversely, we view the fact that 99.84% of the estimated Weapons Systems Environmental Liabilities were found to be properly calculated and supported, represents a significant achievement for the DON Financial Improvement Program and is a direct reflection of the concerted efforts put forth by NAVSEA.

The following additional comments are provided:

- While outside the scope of the requested examination, the recommendation regarding aircraft disposal liabilities is noted. My office will research the aircraft issue and take appropriate action.

Subj: DEPARTMENT OF THE NAVY RESPONSE TO DODIG ATTESTATION ON ENVIRONMENTAL DISPOSAL FOR WEAPONS SYSTEMS AUDIT READINESS (PROJECT NO. D2007-D000FN-0183.000

- Considering the age of many DON assets, the adequacy and availability of original source documentation will continue to be a challenge that we must jointly address. Alternative documentation and consistently applied estimation methodologies will have to be considered as part of the overall supporting documentation portfolio.

Thank you for the opportunity to provide comments on this draft report. My point of contact for this subject is Mr. Steven Sninsky at (202) 685-6733 or Steve.Sninsky@navy.mil.

MARK E. EASTON
Director
Office of Financial Operations

DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
1333 ISAAC HULL AVE SE
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IN REPLY TO

7300
Ser 01P/049
20 July 2008

From: Commander, Naval Sea Systems Command
To: Department Of Defense, Office Of Inspector General
Via: Assistant Secretary Of The Navy, Financial Management And Comptroller, The Office Of Financial Operations

Subj: RESPONSE TO DODIG REPORT ON PROJECT NO. D2007-D000FN-0183.000

Encl: (1) NAVSEA Responses to DODIG Discussion Draft of a Report on Project No. D2007-D000FN-0183.000, Attestation of the DON's Environmental Disposal for Weapons Systems Audit Readiness Assertion

1. The Naval Sea Systems Command (NAVSEA) would like to thank the Department of Defense Office of Inspector General (DODIG) for their efforts and recommendations on the attestation of the Department of Navy's (DON) Environmental Liability (EL) Disposal for Weapons Systems. We appreciate the opportunity to work with DODIG to better understand the DODIG audit process and familiarize DODIG with the DON Line Item Assertion Packages. NAVSEA recommends for future examinations or audits, that "Agreed-Upon Procedures" are established during entrance meeting requiring consistent use of an agreed on central point of contact at the Command level. This will enhance the audit/examination process. NAVSEA also requests that the DODIG opinion letter be included in the DODIG draft report.

2. Although the DODIG's findings are important and need to be addressed, NAVSEA is concerned about labeling a variance of $21M, less than 1% as "material" or "significant". DODIG's frequent use of "significant" throughout the draft report implies the findings were material; however, DODIG essentially determined that the future probable estimated EL of the $13.1B was 99.84% accurately reported. It has been through NAVSEA's Financial Improvement Program (FIP) efforts that we have been able to achieve such success with developing a sound methodology and ensuring reliable documentation and accounting of this EL process. The NAVSEA key stakeholders (SEA 08,07 and PMS333) have made

Subj: RESPONSE TO DODIG REPORT ON PROJECT NO. D2007-D000FN-0183.000

significant progress since the audit conducted by Naval Audit Service in 2004. NAVSEA recognizes the key stakeholders' efforts and hard work in achieving such success. As part of the FIP sustainment efforts, continual improvements will be as necessary to ensure adequate accounting and reporting of the estimated future probable EL. NAVSEA has carefully reviewed DODIG's recommendations and are working towards incorporating applicable changes in the Management Internal Control Program, to continue sustainment.

3. NAVSEA views the DODIG audit report as a positive comment on the status of the NAVSEA accountability and recording of the future probable EL estimate, as reflected by the minimal findings based on the DODIG's variance of 0.16% of the total reported estimated future probable environmental disposal liability of $13.1B.

4. Enclosure (1) provides the NAVSEA summary and detailed responses to the DODIG Discussion Draft of a Report on Project No.D2007-D000FN-0183.000, Attestation of the DON's Environmental Disposal for Weapons Systems Audit Readiness Assertion.

Thank you again for allowing us to comment.

Margaret Maguire
Comptroller/Deputy Commander

NAVSEA Responses to DODIG Discussion Draft of a Report on Project No. D2007-D000FN-0183.000, Attestation of the DON's Environmental Disposal for Weapons Systems Audit Readiness Assertion

Summary of Points:

1. Naval Sea Systems Command (NAVSEA) views the Department of Defense Office of Inspector General (DODIG) audit report as a positive comment on the status of the NAVSEA accountability and recording of the Environmental Liability (EL) estimate as reflected by the minimal findings that resulted only in a variance of 0.16% of the total estimated future probable EL of $13B for the Weapon Systems Program for the Navy Vessels. NAVSEA has reviewed DODIG's recommendations and are working towards incorporating applicable changes in the Management Internal Control Program, in order to continue sustaining the EL Estimate Process.

2. DODIG only identified a 0.16% variance in the total estimated future probable environmental liability of $13.1B.

3. Since DODIG did not specifically address the process/methodology or identify any errors/issues, NAVSEA can infer that DODIG found this to be accurate and reliable.

4. Where applicable, NAVSEA Financial Improvement Program (FIP) will incorporate DODIG's recommendations to further enhance the standard operating procedures for the accounting of the EL estimate liability.

5. **For the reader's clarification**: There is some confusion with the use of the terminology of "understatement and overstatement" in the report, which DODIG may want to verify for accuracy.

Finding A. Recording the Environmental Disposal for Weapon Systems.

A. DODIG recommends that the Assistant Secretary of the Navy (Financial Management and Comptroller) revise standard operating procedures to improve the reporting of the environmental liability. Specifically, the Naval Sea Systems Command Financial Improvement Program team should ensure that the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Workbook for Conventional Weapons (Non-Nuclear) Vessels contain:

1. **Correct vessel information such as commission date, light displacement tonnage, useful life, and status.**
2. **Accurate formulas used to calculate the environmental liability.**

ENCLOSURE (1)

6. The HitchHiker's Guide to Navy Surface Ships (HHG) is supported by documentation and the slight variance in the light displacement tonnage (or referred to as the A Condition of the vessel) reported from one version to the next has an insignificant impact on the overall EL estimate.

7. On Page 13, DODIG states that the external source documentation supporting the commission date of selected vessels from the NVR was not supported for 204 vessels. DODIG did not provide the NAVSEA central POC, SEA 01 the list of vessels which they state are not supported. Therefore, SEA 01 was unable to respond/clarify any variances or discrepancies.

    a. The commission date only impacts approximately 6 vessels for those identified on the Post 1 Oct 1997 Nuclear-Powered EL Amortization Worksheet for $218.7M Recognized EL and 40 Vessels on the Post 1 Oct 1997 Conventional Weapon EL Amortization Worksheet for $1.54M Recognized EL, which is 46 vessels out of 388 vessels reported (Active and Inactive Vessels), approximately less than 1.69% of the total reported EL. The commissioning date for the other 342 vessels has no impact on the EL estimate.

8. DODIG does not identify what it defines as errors. DODIG did not provide the NAVSEA central POC a listing or accounting of the 327 "errors." DODIG states it identified 262 "errors" out of 2830 data fields had an impact on the EL estimate, but did not provide a summary of those "errors."

    a. The commission dates only have an impact on 46 vessels; the useful life only has an impact on 46 of the vessels and approximately 1.69% of the total EL reported. A reconciliation was performed between the Capital Asset Management System (CAMS-ME) and the EL Workbooks. Where variances were identified, the information was reviewed with the key EL POCs to determine the most accurate useful life for that type of vessel. There has been an effort within NAVSEA to ensure that there is an official useful life listing for vessels to address inconsistencies in sources for this information.
    b. The other fields as fleet ownership, hull number, and unit identification code have no impact on the EL estimate.
    c. The fleet ownership of a vessel can change during the life of a vessel; therefore, when DODIG checked the NVR late 2007/early 2008, this information could have changed since the setup and review of this data. DODIG indicated only 1 variance out of 388 vessels.
    d. A variance in the light displacement tonnage would only have a minimal impact on the total EL estimate and therefore NAVSEA considers a minimal variance in the light displacement tonnage reported in the HHG would have an immaterial impact on the total estimated future probable environmental liability. The FIP Team considered the HHG, which is managed by SEA 05, an internal NAVSEA source as a reliable source. The estimate is an estimate of a future probable

liability for the disposal of its vessels and therefore in its inherent definition is a best estimate of that liability.

9. It appears there was confusion on the definition of one of the columns represented in the Non-Nuclear Workbook- Post 1 Oct 1997 Active Non-Nuclear Vessel Spreadsheet. The Non-Nuclear EL is calculated as 25% of the total estimate. When calculating the estimated recognized EL per annum, the formula calculated the EL as 25% for the recognized EL portion of the estimate. The problem occurred in the next column when an additional 25% was calculated in the formula. In order to reduce the confusion, the spreadsheet will reflect the correct adjustment. NAVSEA will continue its efforts ensuring the integrity of internal controls through its Management Internal Control Program, performing annual testing of the EL process.

Finding B. Completeness of the Environmental Liability for Disposal Costs Related to Weapon Systems.
Recommendations

B. DODIG recommends that the Assistant Secretary of the Navy (Financial Management and Comptroller) ensure that all of the Navy's disposal costs for weapons systems are included in its Environmental Disposal for Weapon Systems line item.

The reporting of EL for aircraft is not the responsibility of the Naval Sea Systems Command. (The Financial Management and Comptroller will address this finding.)

Finding C. External Source and Internal Supporting Documentation
Recommendations

C. DODIG recommends that the Assistant Secretary of the Navy (Financial Management and Comptroller) ensure that the:

1. **Light Displacement Tonnage is traceable to supporting documentation**
2. **Office of the Chief of Naval Operations provides the supporting documentation to the Naval Sea Systems Command Shipbuilding Support Office to support data in the Naval Vessel Register.**
3. **External Source owners are:**
   a. **Notified that their information is being used to support the Navy's financial information and**
   b. **Trained on what documentation is needed to support to properly support a financial statement audit.**
4. **Naval Sea Systems Command Financial Improvement Program team provides documentation that the auditor requests in accordance with the Department of Defense Office of Inspector General Memorandum, "Auditor Access for Financial Statement Audits," January 24, 2005.**

10. Based on DODIG's definition of "external source," the NVR data and the HHG would be considered internal sources. This supporting documentation comes from NAVSEA entities and should be reflected as internal NAVSEA documentation.

11. The FIP Team is working with the point of contact for the HHG to ensure that the Team is provided the most up to date version of this source. SEA 05 has agreed to publish an official release of this source once a year. The FIP Team is also working within NAVSEA to ensure official documentation is provided to the Team to support the commissioning and decommissioning dates of the Vessels, which will support the NVR.

12. For future audits/examinations, NAVSEA recommends that DODIG and the Command agree upon using a central point of contact at the Command level to better facilitate the coordination efforts among the parties. There were instances that information was not requested from the SEA 01 central POC.
    a. For example, DODIG mentions that they requested supporting information from SEA 08 and 07. SEA 08, 07 do not agree with this statement.
    b. Page 10, the following statement is misleading…"We requested the external source documentation from the HHG for 32 out of 388 vessels. However, the NAVSEA FIP Team only provided the external source documentation from the HHG for 21 out of 32 vessels." DODIG did not request this information from either the central NAVSEA POC or the NAVSEA FIP Team. This request for this information was not brought to the NAVSEA central POC for this examination until several weeks later when DODIG was debriefing the Office of Financial Operations, FMO.
    c. DODIG did not request the supporting documentation for the NVR from the NAVSEA central POC. We are unaware of what they requested and what information was/was not provided.

13. For future audits/examinations, NAVSEA recommends that DODIG and the DON during the entrance meeting establish mutually "Agreed-Upon Procedures" to facilitate the execution of the audit/examination.

Finding D. Internal Controls Over the Nuclear-Powered and Non-Nuclear Vessel Workbooks

Recommendations: DODIG recommends that the Assistant Secretary of the Navy (Financial Management and Comptroller) ensure the accuracy, reliability, and authenticity of the data entered into the workbooks.

1a. NAVSEA personnel properly reconcile data from the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels to external source documentation and internal supporting documentation, as stated in its process memoranda.

1b. NAVSEA personnel review the formulas and corresponding data in the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels at least annually for accuracy and reliability of the data.

2a. Ensure restrictions to and accountability for the Environmental Liabilities for Nuclear-Powered Active and Inactive Vessels Workbook and the Environmental Liability Amortization Workbook for Conventional Weapons (Non-Nuclear) Vessels by: (1) Requiring a log to record and track changes that identify the change, user name, and date of signature; (2) Ensuring appropriate personnel authorize and perform transactions by including the preparer or reviewer's printed name, a title block, a signature line, and date of signature.

14. DODIG states that the NAVSEA FIP Team "did not adequately ensure proper access and accountability for resources and records." As identified for the auditors, unauthorized access to the workbooks was a very low risk and which is represented by the low variance of 0.16% in the total estimated future probable Environmental Liability of $13.1B.
    a. The workbooks have been password protected, maintained on a separate hard-drive, and the data backed-up.
    b. Only one authorized person has been the primary individual responsible for updating the EL Amortization Workbooks from the data/information from the key POCs (there is a designated Back-Up person in case of an emergency).
    c. The updates to the EL Amortization Workbooks have been made on a quarterly basis in order to calculate the EL estimate and update the Data Collection Module (DCM). A hardcopy is printed out, reviewed, signed and placed in the DCM book, which is maintained by the NAVSEA authorized SEA 01 DCM approver.
    d. NAVSEA FIP Team will ensure that the preparer and reviewer's names are printed with a title block, and date along with their signatures.
    e. When the primary user goes to open the excel workbook, excel lists the date that the workbook was last updated.
    f. At the bottom of each worksheet, comments that were numbered and dated were listed identifying the changes made to each worksheet **(FIP Team will add user name to those comments).**
    g. In addition, each quarter the prior ending period values were double checked including the adjustments.
    h. Annually, the key stakeholders in the process meet to discuss and review the annual adjustments, aligning to the internal source documentation. The source documentation is added to NAVSEA's Assertion Package for EL.

NAVSEA will continue its efforts ensuring the integrity of internal controls through its Management Internal Control Program, performing annual testing of the EL process. The FIP Team will review the memoranda and ensure that the recommendations made by DODIG are already incorporated into the documents.

Detailed Responses to Audit Comments/Recommendations

Overall, the Naval Sea Systems Command views the DODIG audit report as a positive comment on the status of the NAVSEA accountability and recording of the future probable Environmental Liability estimate, as reflected by the minimal findings based on the DODIG's variance of 0.16% of the total reported estimated future probable environmental disposal liability of $13.1 billion.

FINDING A. Recording the Environmental Disposal for Weapons Systems

DODIG Statement (Page 3, Paragraph 1): "However, the NAVSEA FIP Team did not properly calculate and record the disposal costs related to the nuclear powered and non-nuclear portion of the environmental liabilities line item. As a result, the Navy understated the General Fund portion of the Environmental Disposal for Weapon Systems by $21.0 million as of March 31, 2007."

Response/Comment: The total estimated liability is approximately $13B and the understatement is $21M, which is less than a 0.1636% variance. It would be more clear to the reader to include the total EL Disposal Estimated Liability of $13 billion allowing to draw reasonable conclusions from the report that are in line with the positive results of this attestation. Every effort is made to report a reasonable estimation for the future liability for the disposal of these vessels, which is reflected by the variance of 0.1636%.

DODIG Statement (Page 3, Paragraph 1): "Specifically, the NAVSEA FIP Team should ensure the workbooks contain correct vessel information such as: commission date, light displacement tonnage (LDT), useful life, and status (such as, inactive or active)."

Response/Comment: This is a generic statement that again implies a general conclusion that the information presented was not correct.

SECTION: SPENT NUCLEAR FUEL AND ENVIRONMENTAL LIABILITY AMORTIZATION WORKBOOKS (Page 3 of DODIG Report)

DODIG Statement (Page 3, Paragraph 3): "Vessel classification determines how the liability is calculated. … (4) historical inventory."

Response/Comment: Note that the historical inventory infers that the worksheet is used in the calculation. This spreadsheet is maintained as a reference, information purposes and control sheet.

DODIG Statement (Page 3, Paragraph 3): "The NAVSEA FIP Team should recognize the full liability for vessels commissioned prior to October 1, 1997, in the initial year recorded."

DODIG proceeds to explain each number; however, there is no mention of the Inactive (Decommissioned) vessels spreadsheet and what that represents. There is an incorrect use of the verb "should"- it should be "recognizes."

Section: Reporting of Nuclear-Powered Vessels Environmental Liabilities
DODIG Statement (Page 4, Paragraph 2): Again the generic statement of "The NAVSEA FIP team did not properly calculate and record the environmental liabilities line item. They identified an additional $17M of EL not reported on the Navy Balance Sheet."

Response/Comment: It would be more clear to the reader to include the total estimated Environmental Disposal Liability of $13 billion allowing the reader to draw reasonable conclusions from the report that are in line with the positive results of this attestation. The total EL for Nuclear-Powered Vessels is $12.8B, of which several errors were identified that resulted in the understatement of the liability by $17M, which is a variance of 0.13%, which is not material to the total estimated future probable environmental disposal liability of $13 billion.

There is confusion in this report of overstatement and understatement.

During the audit, DODIG did not bring this the attention of the NAVSEA FIP Team.

Section: Commission Dates
DODIG Statement (Page 4, Paragraph 4): The NAVSEA FIP team used the incorrect commission dates to compute the environmental liability for two active vessels commissioned after September 30, 1997: the USS Connecticut and the USS Jimmy Carter.

Comment/Response: Yes, we concur the commission date for these vessels USS Connecticut and USS Jimmy Carter is incorrect and subsequently has been adjusted.
Even with the revised NVR commissioned dates, the calculation of overstatement (which should have been $18M) is an adjustment of $18M out of the total estimated future probable liability of $12.8B for Nuclear-Powered Vessels.
Note Source: EL Calc for NuclearNAVSEA2007v2.0.xls

Section: Light Displacement Tonnage
DODIG Statement (Page 4, Paragraph 5): "The NAVSEA FIP Team used the incorrect LDT to compute the environmental liability for four active commissioned vessels: the USS Nimitz, USS Theodore Roosevelt, the USS George Washington, and the USS Ronald Reagan.

"The NAVSEA FIP Team understated the LDT by 353 tons. This resulted in an understatement of $433,900 on the Navy General Fund Balance Sheet."

Comment/Response:

The adjustment is immaterial to the total value/estimate for these vessels. Therefore, this is not a material misstatement.

The FIP Team used the source: HHG July 2005, which was included in the Table of Contents of the EL Weapon Systems Assertion Package, page 91 of the source. The Light Displacement Tonnage is also referred to as the Light Condition of the Ship.

	EL Amortization Wkbk	HHG-Jul 05
USS Nimitz	77,264	77,264
USS Theodore Roosevelt	80,925	80,925
USS George Washington	81,296	81,296
USS Ronald Reagan	78,621	78,621

As there was no variance with the HHG-Jul 05, the Team will agree that the values should have been updated to the October 2006 HHG version, which was done with a later EL Workbook. However, the variance/adjustment is less than 0.11% variance of the total LDT reported for these vessels. In terms of total EL Disposal value, it was an adjustment of $433,900 out of $2 billion for the estimated future probable environmental liability for Nuclear-Powered Carriers, which is 0.02% variance.

The HHG LDT was updated at a later date of the EL workbook as reflected below:

As reflected in the EL Amortization Workbook- and the HHG October 2006:

	EL Amortization Wkbk	HHG-Oct 06
USS Nimitz	77,326	77,313
USS Theodore Roosevelt	81,043	81,043
USS George Washington	81,327	81,327
USS Ronald Reagan	78,776	78,776

Page 4 of DODIG Report, Section Useful Life

Subsequently, the EL Amortization Workbooks have been updated with the most recent version of the HHG- 2008.

DODIG Statement (Page 5, Paragraph 2): "The further analysis indicated that the NAVSEA FIP Team still used the incorrect useful life to compute the environmental liability for two active vessels: the USS Connecticut and the USS Jimmy Carter. The NAVSEA FIP team overstated the total useful life for these vessels by 6 years. This resulted in an understatement of $3.8M on the Navy General Fund Balance Sheet."

Comment/Response: In the 1st paragraph under this "Useful Section of the Report," is discussing the useful life of the Aircraft Carriers.

The USS Harry S. Truman and the USS Ronald Reagan are Nuclear Aircraft Carriers- the class of vessel is CVN.

The useful life for aircraft carrier is 50 years (which 35 years + 15 years for the modernization of these vessels), which is supported by several sources including the Capital Asset Management System for Military Equipment (CAMS-ME), database extract was included in the EL Assertion Package, Document "Reconciliation EL Workbook-CAMS-ME.xls."
The USS Connecticut and the USS Jimmy Carter are Active Nuclear Attack Submarines, the Seawolf Class (SSN); therefore their useful life would not be 50 years as the Aircraft Carriers. There is no understatement of the estimate and there were reliable standard operating procedures to properly record information in the workbook. The long range plan for shipbuilding construction, which is the Shipbuilding Report to Congress, reflects 33 years for these types of vessels, SSN class. In addition, the OPNAVINST 3120.33B that is under revision also reflects 33 years for the SSN Class of vessel.

REPORTING OF NON-NUCLEAR ENVIRONMENTAL LIABILITIES

DODIG Statement (Page 5, Paragraph 3): "The NAVSEA FIP Team did not properly calculate and record the environmental liabilities line item for the non-nuclear environmental liabilities. We analyzed the workbook for non-nuclear vessels and identified an additional $4.0M of environmental liabilities not reported on the Navy Balance Sheet."

"We identified several errors in the workbook that led to an understatement of $4M."

"The errors included vessels with incorrect LDT; vessels with incorrect useful life; a vessel with incorrect status; and incorrect formula used to compute the EL for vessels commissioned after September 30, 2007."

Comment/Response: It would be clear to the reader to include the information that the variance is $4M out of $206M reported for the total EL for Non-Nuclear (Conventional Weapons), which is a variance of about 1.91 percent.

The information presented in the report is not in agreement. The second statement of the first paragraph of this section "identified an additional $4M of EL not reported" and the first sentence of the second paragraph states an "understatement of $4M."

The Non-Nuclear (Conventional Weapons) population is 280 vessels of which DODIG Reports one vessel had an incorrect status. We are unclear as to how this translates to the Assistant Secretary of the Navy "did not establish reliable standard operating procedures to properly record information captured in the workbook."

Several errors reflect that additional improvements can be made to the established operating procedures to ensure increased reliability in the values presented.

Light Displacement Tonnage

DODIG Statement (Page 5, Last Paragraph 5): "The NAVSEA FIP team used the incorrect LDT to compute the environmental liability for three inactive vessels: the USS Austin, the USS Duluth, and the USS Robin."

Comment/Response: The FIP Team used the source: HHG July 2005, which was included in the Table of Contents of the EL Weapon Systems Assertion Package, pages 169 and 191 of the source. The Light Displacement Tonnage is also referred to as the Light Condition of the Ship. In comparing the Workbook to the HHG, there was only one vessel that was in error.

	EL Amortization Wkbk	HHG July 2005
USS Austin	**9193**	**9193**
USS Duluth	**9781**	**9099**
USS Robin	**904**	**904**

The FIP Team has updated the LDT from a more recent HHG reference. The FIP Team is working with the SEA 05 POC to obtain the most up to date HHG prior to making the Annual adjustments to the EL Estimate. This was written up in the FIP Team's response to DODIG on January 10, 2008 (Overview of Light Condition per HHG.doc).

The total light displacement tonnage for the Non-Nuclear Inactive Ships Inventory is 901,715. DODIG is indicating a variance of 676 LDT, which is .074% variance.

Useful Life

DODIG Statement (Page 6, Paragraph 1): "The NAVSEA FIP Team used the incorrect useful life to compute the environmental liability for two active vessels: the USS Pearl Harbor and the USS Atlantis… The NAVSEA FIP Team overstated the total useful life reported by 20 years. This resulted in an understatement of $37,700 on the Navy General Fund Balance Sheet.

Comment/Response: The useful life used for these two vessels, which are AGOR vessels is 25 years. It is unclear how DODIG thinks that the team used the incorrect useful life for these vessels.

USS Pearl Harbor 40 years
USS Atlantis 25 years The correct commission date was used and used the same useful life for the other AGOR vessel that was cited on the Post 30 September 1997 EL Amortization Worksheet.

Status
DODIG Statement (Page 6, Paragraph 2): "The NAVSEA FIP Team used the incorrect status for one vessel."

Comment/Response: DODIG does not reflect that this is one vessel out of 281 vessels reported, which is a .003% variance. The USS Valley Forge had been removed from the inactive inventory and placed on the historical inventory in the following quarter (3rd Quarter FY 2007).

Finding B. Completeness of Environmental Liability for Disposal Costs Related to Weapon System.

NAVSEA does not own aircraft and is unable to comment on this finding. This finding will be addressed by Assistant Secretary of Navy (Financial Management and Comptroller).

Finding C. External Source and Internal Supporting Documentation

DODIG Statement (Page 10, Paragraph 2, Criteria for Documentation): DODIG states that they "considered documentation obtained from a third party as external source documentation and documentation internally generated by NAVSEA as internal supporting documentation." DODIG proceeds to outline points on "external source documentation," which includes the HHG.

Comment/Response: The NAVSEA 05 Technical Warrant Holder (TWH) for Weight Control and Stability is responsible for the stability baselines for all surface ships as documented in the HHG. Therefore, the HHG should be reflected as internal source documentation.

DODIG Statement (Page 10, Paragraph 3, External Source Documentation): DODIG states "The NAVSEA FIP team did not ensure the adequacy or availability of external source documentation used in the environmental liability calculation."

Comment/Response: The NAVSEA FIP Team considered the HHG to be a reliable source since this document is the NAVSEA official document for the Weight Control and Stability of the naval vessels. The variance in the "Light Displacement Tonnage" or Condition A of a vessel is minimal over the life of a vessel. Therefore, a variance in the LDT has a minimal impact on the total estimated future probable environmental liability. The LDT is used in the EL calculation for the 6 Nuclear-Powered Aircraft Carriers and for the Conventional Weapons.

The HHG is primarily used to document the current stability baseline for all in-service surface ships, of which the primary concern for NAVSEA Engineering is the Full Load Condition D of the vessel. However, the HHG does provide other vessel conditions, such as the Lightship Condition A.

Upon delivery of a vessel to a Department of Navy's an Inclining Experiment is performed for all ships to verify the Lightship Condition A and Full Load Condition, Condition D. The Inclining Experiment or in some cases a Deadweight Survey are the basis for the Lightship displacement values. The results of the Inclining Experiment are reported to NAVSEA 05. During the ship's life changes occur and are reported to NAVSEA 05, via Actual Weight Reports (AWR). These AWRs are reviewed and the results are documented in Route Sheets or emails and as a result the Lightship displacement values changes. NSWC, Carderock Division, Code 244 is the Engineering Agent who is responsible for updating and maintaining the HHG for NAVSEA 05 Technical Warrant Holder (TWH) for Weight Control and Stability.

As an example: The initial lightship displacement value for a vessel is determined to be 27,702 long tons based on an Inclining Experiment. Over the life of the vessel the changes to the ship occur and are documented in AWRs. These AWRs are reviewed and the results are documented (i.e., AWR for FY 01- 73 tons, FY 04 - 20 tons and FY 07 – 87 tons). As a result the initial lightship value of 27,702 tons changes by + 73 tons + 20 tons + 87 tons and results in revision to the lightship value Condition A of 27,882 tons.
The NAVSEA 05 TWH for Weight Control and Stability is responsible for the stability baselines for all surface ships as documented in the HHG.

The HHG is continually being updated by NSWC, Carderock Division for NAVSEA 05 TWH. NAVSEA 05 TWH instituted as part of its Lean Six Sigma Efforts and management internal control program to publish the HHG semi-annually (January and July) for internal use and is marked for "For Official Use Only (FOUO)" and as time sensitive material.

DODIG Statement (Page 11, Paragraph 2): "The NAVSEA FIP team did not verify that the HHG and NVR were reliable sources."

Comment/Response: The NAVSEA FIP Team considered the HHG to be a reliable source since this document is the NAVSEA official document for the Weight Control and Stability of the naval vessels. The variance in the "Light Displacement Tonnage" or Condition A of a vessel is minimal over the life of a vessel. Therefore, a variance in the LDT has a minimal impact on the total estimated future probable environmental liability.

DODIG Statement (Page 13, Paragraph 2): "The NAVSEA FIP team did not provide internal supporting documentation for all requests in compliance with DOD guidance. For example, we did not receive the requested internal supporting documentation for the following data elements of the nuclear-powered vessels workbook: average man days per light ton, man days, materials, adjustment for efficiency, hull size factor, hull recycling labor cost per type of vessel, and pre-hull recycling costs per type of vessel. In addition, we did not receive the internal supporting documentation needed to verify the net cost component of the average calculated cost per light ton per vessel type used in the non-nuclear vessel workbook."

Comment/Response: This information was provided to DODIG in the Environmental Liabilities Assertion Package. If DODIG requested additional information or explanation, this information was provided to them in detailed write-ups. Again, there were instances that

DODIG did not go through a central point of contact. The supporting documentation to verify the net cost component of the average calculated cost per light ton per vessel type was included in the Assertion Package, document name NonNuclearContractorDispCostsV2.xls. The EL Assertion Package included a table of contents which provided a description of the documents.

DODIG Statement (Page 15, Paragraph 2): DODIG "identified 327 errors out of 2, 830 data fields reviewed…" "All errors identified pose a concern for the integrity of the workbooks."

Comment/Response: DODIG did not provide a listing of these "identified errors" to the NAVSEA FIP Team/SEA 01 Central POC so that this information could be reviewed or verified.

a. The commission dates only have an impact on 46 vessels; the useful life only has an impact on 46 of the vessels and approximately 1.69% of the total EL reported. A reconciliation was performed between the Capital Asset Management System (CAMS-ME) and the EL Workbooks. Where variances were identified, the information was reviewed with the key EL POCs to determine the most accurate useful life for that type of vessel. There has been an effort within NAVSEA to ensure that there is an official useful life listing for vessels to address minor inconsistencies in sources for this information.
b. The other fields as fleet ownership, hull number, and unit identification code have no impact on the EL estimate.
c. The fleet ownership of a vessel can change during the life of a vessel; therefore, when DODIG checked the NVR late 2007/early 2008, this information could have changed since the setup and review of this data. DODIG indicated only 1 variance out of 388 vessels.
d. A variance in the light displacement tonnage would only have a minimal impact on the total EL estimate and therefore NAVSEA considers a minimal variance in the light displacement tonnage reported in the HHG would have an immaterial impact on the total estimated future probable environmental liability. The FIP Team considered the HHG, which is managed by SEA 05, an internal NAVSEA source as a reliable source. The estimate is an estimate of a future probably liability for the disposal of its vessels and therefore in its inherent definition is a best estimate of that liability.

Every effort was made to ensure that the data entered into the workbooks is accurate. The information was reconciled to supporting documentation as reflected in the process memoranda.

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