Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONTROLS OVER GOVERNMENT-FURNISHED PRECIOUS METAL AT J. F. JELENKO AND COMPANY

Report Number 92-083 April 29, 1992

Department of Defense

The following acronyms are used in this report.

DFARS.....Defense Federal Acquisition Supplement
DLA.....Defense Logistics Agency
FAR.....Federal Acquisition Regulation

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

April 29, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on the Controls Over Government-Furnished Precious Metals at J. F. Jelenko and Company (Report No. 92-083)

We are providing this report for your information and use. A draft of this report was issued on February 25, 1992. Comments were not requested to the draft report because there were no findings or recommendations in the report, and none were received. No comments are required on this final report. Any that you wish to make should be provided by May 29, 1992.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Paul J. Granetto, Deputy Director, at (703) 693-0573 (DSN 223-0573) or Ms. Victoria C. Hara, Project Manager, at (703) 614-6263 (DSN 224-6263). The activities visited or contacted are shown in Appendix A, and the planned distribution of this report is listed in Appendix B.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Director, Defense Contract Audit Agency

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-083 **April 29, 1992**
(Project No. 1CD-0054)

AUDIT REPORT ON THE CONTROLS OVER GOVERNMENT-FURNISHED PRECIOUS METALS AT J. F. JELENKO AND COMPANY

EXECUTIVE SUMMARY

Introduction. The audit universe consisted of 45 contractors who were issued a total of 2,008,341 troy ounces of precious metals in FY 1990 valued at approximately $9 million. We randomly selected J. F. Jelenko and Company and Yardney Technical Products, Inc., for review. J. F. Jelenko and Company contracts contained Government-furnished precious metals valued at approximately $2.5 million. Our review of Yardney will be reported separately.

Objectives. The objective of the audit was to determine the validity of methods used to establish requirements for Government-furnished precious metals. We also evaluated the adequacy and effectiveness of internal controls over those precious metals.

Audit Results. We found no reportable problems with the methods used to establish requirements for Government-furnished precious metals. Federal Acquisition Regulation Clause 52.245-2(i), "Government Property (Fixed-Price Contracts)," requires a final accounting and disposition of Government property. J. F. Jelenko and Company properly certified that it used all Government-furnished precious metals in the production process.

Internal Controls. We found no material internal control problems. A minor surveillance internal control weakness was disclosed and discussed with appropriate DoD officials who agreed to take corrective action.

Potential Benefits of Audit. We identified no potential monetary benefits.

Summary of Recommendations. This report contains no recommendations.

Management Comments. We provided a draft of this report to the addresses on February 25, 1992. Because there were no recommendations, no comments were required of management, and none were received. Any comments on this final report should be provided by May 29, 1992.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - RESULTS OF AUDIT

Introduction

This is the first of two reports on controls over Government-furnished precious metals by contractors. The audit objective was to determine the validity of methods used to establish requirements for Government-furnished precious metals. We also evaluated the adequacy and effectiveness of internal controls over those precious metals. J. F. Jelenko and Company manufactures dental alloys sold to the Federal Government and to commercial entities.

Discussion

We found no reportable problems with the methods used to establish requirements for Government-furnished precious metals. We also found no material internal control problems. Federal Acquisition Regulation (FAR) Clause 52.245-2(i), "Government Property (Fixed-Price Contracts)," requires a final accounting and disposition of Government property. J. F. Jelenko and Company properly certified that it used all Government-furnished precious metals in the production process.

Scope of Audit

We based the universe of issues of Government-furnished precious metals for FY 1990 on the Defense Industrial Supply Center computer database. The reliability of the data was not established because the purpose of the audit was to determine the validity of methods used to establish requirements for Government-furnished precious metals. Accordingly, our initial selection of contractors is qualified to the extent that independent tests of the data base were not made. Any errors in the data base do not affect the results of our review on the methods used to establish requirements for precious metals.

The universe consisted of 45 contractors who were issued a total of 2,008,341 troy ounces of precious metals in FY 1990 valued at approximately $9 million. We randomly selected J. F. Jelenko and Company and Yardney Technical Products, Inc., for review. J. F. Jelenko and Company contracts contained Government-furnished precious metals valued at approximately $2.5 million. In addition, we reviewed precious metals procured on the commercial market by J. F. Jelenko and Company for 138 DoD contracts valued at approximately $152,824. During the audit, we reviewed specifications, contracts, cost analyses, actual cost data, precious metal requisitions, storage contractor invoices,

correspondence, spectrographic test results, melt edit lists, and other related documentation.

Our related audit work at Yardney Technical Products, Inc., is ongoing, and the report on that effort is scheduled for release in the Summer of 1992.

Audit period, locations, and standards. This economy and efficiency audit was performed from June 1991 to January 1992 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. Appendix A lists the activities visited or contacted during the audit.

Internal Controls

Controls assessed. We evaluated internal controls applicable to compliance with laws and regulations and procedures for obtaining Government-furnished precious metals. Specifically, we reviewed contract files; FAR; Defense Federal Acquisition Supplement (DFARS); and Army, Navy, Air Force, and Defense Logistics Agency (DLA) regulations. In addition, we interviewed DoD procurement and contractor personnel.

Internal control weaknesses. The audit disclosed no material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. A minor surveillance internal control weakness was disclosed and discussed with appropriate DoD officials who agreed to take corrective action. This report identifies no potential monetary benefits.

Background

DoD provides precious metals as Government-furnished material for a variety of products. The Defense Industrial Supply Center distributes the precious metals. The prime contractor is responsible for the control and the accountability of Government-furnished precious metals in its possession or in the possession of its subcontractors.

The Government furnishes contractors with gold, silver, platinum, and palladium. The most widely used precious metal is silver, which is used to manufacture film, photographic paper, X-ray film, and electrical products such as batteries. Gold is used for solid-state electronic devices, industrial control and monitoring instruments, and corrosion-resistant chemical process equipment. Increasingly complex civilian and military electronic systems use gold to ensure dependable operations under a wide range of conditions.

The platinum group comprises six closely related rare metals: platinum, palladium, rhodium, ruthenium, iridium, and osmium. These metals are used in electrical contacts and electronics, dental applications, medical uses, and emission control devices.

Prior Audit Coverage

The Office of the Inspector General, DoD, Report No. 88-189, "Controls Over Government-Furnished Silver at Eagle Picher Industries, Inc.," August 5, 1988, verified that the contractor furnished the Government negotiator with inaccurate cost or pricing data; that the contractor purchased commercial precious metals in lieu of less expensive Government stock; and that physical, accounting, and administrative controls over Government precious metals were inadequate. The report recommended downward contract price adjustments, emphasizing the use of Government silver stock in lieu of contractor-furnished silver; more thorough analyses of pricing proposals, estimations, and accounting systems; reconciliation of Government-furnished silver balances; and a thorough property control survey. The report also recommended monitoring and enforcing contract provisions; prohibiting the use of contract clauses that waive the requirement to account for Government-furnished precious metal and residual scrap by contract; and issuing clearer guidance concerning contracting officer and administrative contracting officer responsibilities. Management generally concurred with the report and initiated corrective actions. Management also agreed with the potential monetary benefits.

The Office of the Inspector General, DoD, Report No. 92-INS-01, "Disposal of Excess Personal Property in the Department of Defense," October 4, 1991, reported that contracting activities failed to include DFARS clause 52.208-7004 "Notice of Intent to Furnish Precious Metal as Government-Furnished Materials," in solicitations for listed Federal supply groups. The report recommended that the Director of Defense Procurement direct the Military Departments to establish procedures and provide oversight to ensure inclusion of DFARS clause 52.208-7004 in solicitations requiring precious metals. The Director of Defense Procurement concurred with the recommendations and initiated corrective actions.

PART II - ADDITIONAL INFORMATION

APPENDIX A - Activities Visited or Contacted

APPENDIX B - Report Distribution

APPENDIX A - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Arlington, VA
Inspector General, Defense Criminal Investigative Service, Arlington, VA

Department of the Army

Assistant Secretary of the Army (Research, Development and Acquisition), Washington, DC
U.S. Army Training and Doctrine Command, Fort Monroe, VA
U.S. Army Signal Center and Fort Gordon, Fort Gordon, GA
U.S. Army Health Services Command:
  Brooke Army Medical Center, Fort Sam Houston, TX
  Walter Reed Army Medical Center, Washington, DC
Directorate of Contracting, Fort Carson, CO
Directorate of Contracting, Fort Bragg, NC
Directorate of Contracting, Fort Hood, TX

Department of the Navy

Naval Supply Systems Command, Arlington, VA
  Naval Supply Center, Norfolk, VA
  Naval Supply Center, Charleston, SC
Bureau of Medicine and Surgery, Washington, DC
  National Naval Medical Center, Bethesda, MD
    Naval Medical Command, Bethesda, MD
      Naval Hospital, Pensacola, FL
      Naval Hospital, Great Lakes, IL
      Naval Hospital, Jacksonville, FL
      Naval Hospital, San Diego, CA
      Naval Hospital, Camp Pendleton, CA
      Naval Dental Clinic, San Francisco, CA

Department of the Air Force

Office of the Deputy Assistant Secretary of the Air Force (Contracting), Arlington, VA
Air Training Command, Contracting Division, Mather Air Force Base, CA
Air Training Command, Medical Center, Keesler Air Force Base, MS
Air Force Materiel Command, Air Force Hospital Tinker Air Force Base, OK

APPENDIX A - ACTIVITIES VISITED OR CONTACTED (Cont'd)

Department of the Air Force (Continued)

Headquarters Air Force Military Training Center, Lackland AFB, TX
Headquarters 67th Tactical Reconnaissance Wing (Tactical Air Command), Bergstrom AFB, TX

Defense Agencies

Headquarters, Defense Logistics Agency, Alexandria, VA
- Defense Industrial Supply Center, Philadelphia, PA
- Defense Personnel Support Center, Philadelphia, PA
- Defense Contract Management Administration Office, Brooklyn, NY
- Defense Depot, Tracy, CA
- Defense Depot, Mechanicsburg, PA
- Defense Depot, Memphis, TN

Other Defense Organizations

Defense Medical Standardization Board, Frederick, MD

Non-DoD

Food and Drug Administration, Rockville, MD
Food and Drug Administration, White Plains, NY
American Dental Association, Chicago, IL

Contractor

J. F. Jelenko and Company, Armonk, NY

APPENDIX B - REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Director of Defense Procurement
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development and Acquisition)

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller, Department of the Navy
Headquarters, Navy Supply Systems Command

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency

Non-DoD

Office of Management and Budget
U. S. General Accounting Office, NSIAD Technical Information Center

APPENDIX B - REPORT DISTRIBUTION, (Cont'd)

Congressional Committees:
- Senate Subcommittee on Defense, Committee on Appropriations
- Ranking Minority Member, Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Ranking Minority Member, Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- Ranking Minority Member, Senate Committee on Governmental Affairs
- House Committee on Appropriations
- Ranking Minority Member, House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- Ranking Minority Member, House Subcommittee on Defense, Committee on Appropriations
- House Committee on Armed Services
- Ranking Minority Member, House Committee on Armed Services
- House Subcommittee on Investigations, Committee on Armed Services
- Ranking Minority Member, House Subcommittee on Investigations, Committee on Armed Services
- House Committee on Government Operations
- Ranking Minority Member, House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations
- Ranking Minority Member, House Subcommittee on Legislation and National Security, Committee on Government Operations

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