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# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

**CONTROLS OVER GOVERNMENT-FURNISHED  
PRECIOUS METALS AT YARDNEY TECHNICAL  
PRODUCTS, INCORPORATED**

Report Number 93-032

January 8, 1993

**~~Special Warning~~**

~~This report contains contractor information that may be company confidential or proprietary. Title 18 U.S.C. Section 1905 and 41 U.S.C. 423 provide specific penalties for the unauthorized disclosure of company confidential or proprietary information. The document must be safeguarded in accordance with DoD Regulation 5400.7-R.~~

**Department of Defense**

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## **Acronyms**

DCAA	Defense Contract Audit Agency
DCMAO	Defense Contract Management Area Operations
DFARS	Defense Federal Acquisition Regulation Supplement
DGSC	Defense General Supply Center
DISC	Defense Industrial Supply Center
FAR	Federal Acquisition Regulation
SDIO	Strategic Defense Initiative Organization



January 8, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY  
DIRECTOR, STRATEGIC DEFENSE INITIATIVE  
ORGANIZATION  
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Controls Over Government-Furnished Precious Metals at  
Yardney Technical Products, Incorporated (Report No. 93-032)

We are providing this final report for your information and use. Comments on a draft of this report were considered in preparing the final report. This is the second of two reports on controls over Government-furnished precious metals by contractors.

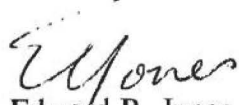
DoD Directive 7650.3 requires all recommendations within DoD to be resolved promptly. Therefore, we request comments from the Army on Recommendation B., the Navy on Recommendation C.2.a., the Strategic Defense Initiative Organization on Recommendation B., and the Defense Logistics Agency on Recommendation A.3. by March 9, 1993. DoD Directive 7650.3 also requires that comments indicate concurrence or nonconcurrence in each recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates for completion of planned actions. If you nonconcur, state your specific reasons for each nonconcurrence. If appropriate, you may propose alternative methods for accomplishing desired improvements.

If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount with which you nonconcur and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact (b)(6), at (b)(6) or (b)(6), at

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(b)(6). The copies of the final report will be distributed to the activities listed in Appendix F. The audit team members are listed inside the back cover.



Edward R. Jones  
Deputy Assistant Inspector General  
for Auditing

cc:

Secretary of the Army  
Secretary of the Navy  
Secretary of the Air Force  
Commandant of the Marine Corps  
Director of Defense Procurement  
Assistant Secretary of the Navy (Research, Development, and Acquisition)  
Director, Defense Contract Audit Agency

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Office of the Inspector General, DoD

Audit Report No. 93-032  
(Project No. 1CD-0054.01)

January 8, 1993

**CONTROLS OVER GOVERNMENT-FURNISHED PRECIOUS  
METALS AT YARDNEY TECHNICAL PRODUCTS,  
INCORPORATED**

**EXECUTIVE SUMMARY**

**Introduction.** The Defense Industrial Supply Center provides silver as Government-furnished material for a variety of DoD products. Prime contractors are responsible for the control and the accountability of Government-furnished silver in their possession or in the possession of their subcontractors.

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

**Audit Results.** Methods used to establish requirements for Government-furnished precious metals at Yardney Technical Products, Incorporated (Yardney) need improvement.

- o Yardney overstated the quantity of silver required to produce batteries, battery cells, and cathodes on DoD contracts and subcontracts. As a result, DoD furnished (b)(4) troy ounces of silver valued at (b)(4) over actual production requirements on 14 contracts (Finding A).

- o Yardney and DoD obtained silver on the open market on 10 pricing actions although DoD could have supplied silver at a lower price. As a result, Yardney purchased (b)(4) troy ounces of silver at an additional cost of (b)(4) to DoD (Finding B).

- o Physical, accounting, and administrative controls over Government-furnished silver to Yardney were inadequate. These inadequacies contributed to the (b)(4) loss of Government-furnished silver. In addition, Yardney improperly maintained DoD-furnished silver with residual and deficit balances for up to 12 years. Improved controls over the silver should result in avoidance of an estimated loss of (b)(4) over the next 5 years (Finding C).

- o The Defense Industrial Supply Center improperly awarded a "no cost" storage and accountability contract to Yardney. As a result, adverse contractor financial condition and inadequate controls over Government-furnished silver placed the Government silver at risk (Finding D).



**Internal Controls.** The audit did not identify material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. See Part I for details of the internal controls reviewed and Part II for details of internal control weaknesses.

**Potential Benefits of Audit.** We identified potential monetary benefits of about \$348,950 and opportunity to improve controls over Government-furnished silver (Appendix D).

**Summary of Recommendations.** We recommended that the Navy, Air Force, and the Defense Logistics Agency procurement offices initiate action to obtain a return of silver on contracts where the silver requirement was overstated. We also recommended that the Services and the Strategic Defense Initiative Organization provide guidance and establish procedures to ensure that silver is provided as Government-furnished material. Furthermore, we recommended that the Services and the Defense Logistics Agency procurement offices resolve residual and deficit balances of silver on completed contracts. On April 24, 1992, a modification to the "no-cost" storage contract was issued notifying Yardney that the contract would be terminated effective July 3, 1992. Therefore, we made no recommendation on this issue.

**Management Comments.** The Army agreed to provide guidance and establish procedures to ensure that silver is provided as Government-furnished material on production contracts but not on research and development contracts. The Army also developed a procedure for contracting officers to monitor and document usage on disposition of Government-furnished silver and requested Yardney to return residual silver. The Navy directed contracting offices to review contracts and request a return of residual silver. The Navy also issued a memorandum on November 19, 1991, reminding the Navy contracting community to ensure that silver is provided as Government-furnished material on future contracts. The Navy believes that the administrative contracting office is responsible for property administration and contract closeout but agreed to initiate action to verify and resolve residual and deficit balances. The Air Force initiated action to obtain a return of silver on contracts where the silver requirement was overstated and issued a policy memorandum reminding contracting officers to ensure that silver is provided as Government-furnished material. The Air Force issued guidance to contracting officers on the management of Government-furnished silver and will meet with the contractor to resolve residual and deficit balances. The Strategic Defense Initiative Organization agreed in principle that silver should be provided as Government-furnished material but was not specific as to what actions were taken and did not provide estimated dates of completion. The Defense Logistics Agency agreed to initiate action to obtain a return of silver where silver was overstated but not for the total amount overstated. The Defense Logistics Agency also agreed to resolve residual and deficit silver balance on completed contracts.

We request that the Army, Navy, Strategic Defense Initiative Organization, and the Defense Logistics Agency provide additional comments to the final report by March 9, 1993. A discussion of the responsiveness of management comments is included in Part II of the report, and the complete text of management comments is in Part IV of this report.



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

## **Part I - Introduction**

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## Background

The Defense Industrial Supply Center (DISC) provides silver as Government-furnished material for a variety of DoD products from the Precious Metals Recovery Program. Prime contractors are responsible for the control and the accountability of Government-furnished silver in their possession or in the possession of their subcontractors.

Silver is the most widely used precious metal within DoD. Silver is used to manufacture film, photographic paper, X-ray film, and electrical products such as batteries. Yardney Technical Products, Incorporated (Yardney), manufactures batteries, cells, and cathodes for Government and commercial use.

## Objectives

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

## Scope

Our universe of issues to contractors of Government-furnished precious metals for FY 1990 is based on the DISC computer data base. 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 of the methods used to establish requirements for precious metals.

**Universe and Sample.** The universe consisted of 45 contractors with a total of 2,008,341 troy ounces of precious metals, valued at approximately \$9 million, issued in FY 1990 by DISC. We randomly selected Yardney and J. F. Jelenko and Company for review. This report covers the audit at Yardney where we reviewed all contracts with FY 1990 precious metal issued from DISC. In addition, we reviewed all FYs 1990 and 1991 contracts over \$25,000 with silver procured from the open market. We also reviewed silver balances on completed contracts and the Yardney storage and accountability contract.

Overall, we reviewed 14 Yardney contracts containing (b)(4) troy ounces of Government-furnished silver, valued at (b)(4) and issued by DISC in FY 1990. In addition, we reviewed 10 DoD contracts with (b)(4) troy ounces of silver obtained on the open market by Yardney and DoD. The silver



obtained on the open market was valued at (b)(4). Finally, we reviewed specifications, contract files, cost analyses, actual cost data, precious metal requisitions, storage contractor invoices, correspondence, and other related documentation for the period from FY 1979 through FY 1991.

**Audit Period, Locations, and Standards.** We performed this economy and efficiency audit from November 1991 to April 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 tests of internal controls as were considered necessary. Appendix E lists the activities visited or contacted during the audit.

## Internal Controls

We evaluated internal controls applicable to compliance with laws, regulations, and procedures for obtaining Government-furnished silver. Specifically, we reviewed contract files; Federal Acquisition Regulation (FAR); Defense Federal Acquisition Regulation Supplement (DFARS); and Army, Navy, Air Force, and Defense Logistics Agency regulations. In addition, we interviewed DoD procurement and contractor personnel. We also evaluated the internal controls over silver requirements, usage, and reporting at Yardney by analyzing its policies, procedures, production, and cost accumulation practices. The internal controls applicable to management of Government-furnished silver to Yardney were deemed to be effective in that no material internal control weaknesses were disclosed by the audit.

## Prior Audits and Other Reviews

The Office of Inspector General, DoD, Report No. 92-083, "Controls Over Government-Furnished Precious Metals at J. F. Jelenko and Company," April 29, 1992, found no reportable problems with the methods used to establish requirements for Government-furnished precious metals.

The Office of the Inspector General, DoD, Report No. 88-189, "Controls Over Government-furnished Silver at Eagle Pitcher Industries, Inc.," August 5, 1988, verified that the contractor purchased commercial precious metals in place of less-expensive Government-furnished metals and that internal controls over Government-furnished precious metals were inadequate. The report recommended that Government-furnished silver stock be used in place of contractor-furnished silver, that Government-furnished silver balances be reconciled, that the use of contract clauses that waive the requirement to account for Government-furnished precious metal and residual scrap by contract be prohibited, and that clearer guidance concerning contracting officer and



## Introduction

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administrative contracting officer responsibilities be issued. Management generally concurred with the report recommendations and initiated corrective actions.

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, stated that the contracting activities failed to include DFARS clause 52.208-7004, "Notice of Intent to Furnish Precious Metal as Government-Furnished Material," 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 recommendation and initiated corrective actions.

## Other Matters of Interest

The Defense Authorization Act for FY 1993 authorized disposal of excess silver from the National Defense Stockpile. The disposals must avoid undue disruption of the usual markets of such materials and must not adversely affect the capability of the National Defense Stockpile to supply silver necessary during a national emergency.

## **Part II - Findings and Recommendations**

## Finding A. Contract Pricing

Yardney overstated the quantity of silver required to produce batteries, battery cells, and cathodes on 14 DoD contracts and subcontracts. The overstatement occurred because Yardney used estimating procedures that did not accurately determine the quantity of silver required to produce cells and cathodes. As a result, the Government furnished (b)(4) troy ounces of silver, valued at (b)(4) in excess of Yardney's actual production requirements.

### Yardney Requirements Determination

Yardney obtained silver for its DoD production contracts through two methods. For some contracts, DoD furnished the silver to the contractor, but for other contracts, Yardney purchased the silver on the open market. In both cases, Yardney developed the formula used to determine silver requirements to justify requests for silver and to price silver in support of DoD contracts. Yardney also used engineering drawings to develop a net silver requirement based on "mean" specification, which is the specification of average materials and dimensions needed to build the item. A cell silver content sheet develops the total silver required per cell. Yardney determined the amount of silver required to produce the final product by multiplying the net requirement by a loss factor. Yardney based the loss factor on a calculation of estimated silver losses for a given period. Using the (b)(4) battery cell as an example, Yardney calculated its silver requirements as shown in the following table.

#### Yardney Calculation of Cell Silver Content

<u>Materials</u>	<u>Troy Ounces Per Cell</u>
(b)(4)	(b)(4)
Subtotal	
Plus (b) Percent Loss Factor	
Total Silver Requirement Per Cell	

Based on the calculation, Yardney would request (b)(4) troy ounces of Government-furnished silver per cell. At the completion of each contract, Yardney determined the amount of silver that should have been used based on (b)(4) not on silver actually used during production. Yardney returned the difference to DoD as residual silver. Using the same example, Yardney calculated residual silver as follows:



Yardney Calculation of Residual Silver

<u>Total Troy Ounces Received:</u>				(b)(4)
<u>Troy Ounces Used</u>				
<u>Troy Ounces Per Cell</u>	<u>Number of Cells</u>	<u>Troy Ounces Per Battery</u>	<u>Number of Batteries</u>	<u>Total Troy Ounces</u>
(b)(4)	(b)(4)	(b)(4)	(b)(4)	(b)(4)
Residual Silver				<u>36.66</u>

**Yardney Pricing**

A review of Yardney accounting records for 14 contracts revealed that Yardney overstated silver requirements by (b)(4) (Appendix A). We reviewed available data for (b)(4) battery types, (b)(4) cell types, and (b)(4) cathode, which accounted for 100 percent of Government-furnished silver issued to Yardney for FY 1990.

**Mathematical Errors.** The material lists and engineering drawings provided the amount of silver necessary to build a battery, cell, or cathode. We reviewed the supporting requirements data for all the cell and cathode types covered by our audit. Using the same numbers and the same computations as Yardney, we arrived at different numbers on (b)(4)(45 percent) of (b)(4) cell and cathode types. Yardney inconsistently rounded the amount of silver required on all (b)(4) cell and cathode types.

**Loss Factor.** A Defense Logistics Agency report, "Yardney Battery Division, Pawcatuck, CT, Technical Review of Silver Loss," December 4, 1984, proposed a silver loss factor of (b)(4) percent for FY 1983. Based on that review, Yardney applied a (b)(4) percent factor to all base silver specifications for the period October 1985 to May 1990. Yardney did not develop any supporting documentation for the loss factor. In May 1990 Yardney lowered the silver loss factor to (b)(4) percent. Since that time Yardney has attempted to develop documentation to support the applied loss factor for the period 1983 through 1991.

**Yardney Calculation.** Yardney computed the silver loss by using the (b)(4) [redacted]. The difference between these calculations and the physical ending inventory established the loss for the period. For example, to determine the loss for the period September 1, 1990, to August 31, 1991, Yardney used the following calculations:



**Yardney Silver Loss Calculation**  
**September 1, 1990-August 31, 1991**

	Troy Ounces (Corrected to Actuals)
Beginning Silver Inventory	(b)(4)
Plus Silver Received	
(b)(4)	
Less Silver Shipped	
Less Ending Silver Inventory	
Total Silver Loss	

Yardney then incorrectly computed the loss factor by dividing the loss for the period (b)(4) by the total silver shipped (b)(4). Dividing the loss by the total silver shipped is incorrect because the total silver shipped does not include the silver lost. To produce a cell or cathode, Yardney must (b)(4). The method that Yardney used improperly inflated the loss factor applied to the cell silver content sheet.

**Audit Calculation.** The loss factor should be arrived at by dividing the loss by shipments plus silver lost (the amount of silver placed into production). Again using the period August 31, 1990, to August 31, 1991, the following shows the difference between the Yardney calculation and the audit calculation.

**Yardney Loss Factor Computation**

$$\frac{(b)(4) \text{ ounces}}{(b)(4) \text{ ounces}} = (b)(4) \text{ percent}$$

**Auditor Loss Factor Computation**

$$\frac{(b)(4) \text{ ounces}}{(b)(4) \text{ ounces} + (b)(4) \text{ ounces}} = (b)(4) \text{ percent}$$

**Loss Factor Application.** Yardney applied an incorrect loss factor to completed work orders by improperly applying the estimated loss factor over the period of the work order instead of using the actual loss factor experienced on an annual basis. For example, on work order 23978, which covered a 2-year period, Yardney applied the estimated (b) percent loss factor times the (b)(4) cells shipped for the 2 years. Yardney should have applied the actual loss factor of (b)(4) percent times (b)(4) cells shipped in 1990 and (b)(4) percent times (b)(4) cells shipped in 1991 (see loss factor chart on the next page).

**Loss Factor Documentation.** We determined that the Yardney documentation did not support the loss factor. We reviewed shipment, receipt and refining data, and the method used to compute the loss factor. In addition,

we adjusted each computation for the loss factor for mathematical errors, incorrect cell silver content sheets, and overstatements and understatements.

Yardney recorded receipts from refined batteries at (b)(4) not at the actual amount of silver recovered. Thus, Yardney overstated or understated silver receipts based on (b)(4)

In addition, (b)(4) As a result, Yardney overstated silver receipts by the difference between the silver recovered and the silver actually received. Yardney also (b)(4) thus the actual amount of silver recovered from returned batteries could not be determined.

The chart below shows the difference between the Yardney applied loss factor, the Yardney documented loss factor, and the actual loss factor. The chart also shows that the actual loss factor is significantly lower than the Yardney applied loss factor.

**Yardney Applied, Documented, and Actual Loss Factors**

<u>Period</u>	<u>Applied Loss Factor (Percent)</u>	<u>Documented Loss Factor (Percent)</u>	<u>Actual Loss Factor (Percent)</u>
FY 1987	(b)(4)	(b)(4)	(b)(4)
FY 1988			
Oct. 1, 1988 - Oct. 31, 1989			
Nov. 1, 1989 - Aug. 31, 1990			
Sep. 1, 1990 - Aug. 31, 1991			

Application of these incorrect computations contributed to the Government supplying (b)(4) more silver than needed on the contracts we examined, as shown in Appendix A.

**Statement of Accountability**

Yardney provided a Silver Accountability Report at the completion of each work order. The report was intended to provide (b)(4) on a completed work order; however, the report did not (b)(4)

The report provided

(b)(4)



## **Recommendations, Management Comments, and Audit Response**

1. We recommend that the Assistant Secretary of the Navy (Research, Development, and Acquisition) request the cognizant procurement contracting officers to initiate action to obtain a return of (b)(4) troy ounces of silver valued at (b)(4) on the 11 contracts listed in Appendix A to the Defense Industrial Supply Center.

**Management Comments.** The Assistant Secretary of the Navy (Research, Development, and Acquisition) concurred and directed the contracting offices to review the contracts and request return of the silver.

2. We recommend that the Commander, Space Systems Division, Air Force Materiel Command, initiate action to obtain a return of (b)(4) troy ounces of silver valued at (b)(4) on contracts F04701-85-C-0019 and F04701-85-C-0101 to the Defense Industrial Supply Center.

**Management Comments.** The Office of the Deputy Assistant Secretary of the Air Force (Contracting) concurred and stated that discussions were initiated with the contractor to obtain return of the silver.

3. We recommend that the Commander, Defense General Supply Center, initiate action to obtain a return of (b)(4) troy ounces of silver valued at (b)(4) on contract DLA400-90-C-0886 to the Defense Industrial Supply Center.

**Management Comments.** The Deputy Comptroller, Defense Logistics Agency, concurred with the recommendation and stated that action was taken by DISC in January 1992 to recover (b)(4) troy ounces of silver from Yardney Technical Products.

**Audit Response.** The Defense Logistics Agency comments are partially responsive. The audit determined that (b)(4) troy ounces of residual silver remained on contract DLA400-90-C-0886. Yardney had previously requested disposition instructions for (b)(4) troy ounces of silver. The (b)(4) troy ounces of residual silver is the difference between the total residual silver and that silver about which Yardney had previously requested instructions. The Defense Logistics Agency needs to initiate action for the return of (b)(4) troy ounces of silver to DISC on contract DLA400-90-C-0886. We request that the Director, Defense Logistics Agency, reconsider his position and provide additional comments.



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## **Finding B. Procurement of Silver on the Open Market**

Yardney and DoD obtained silver on the open market on 10 DoD contracts although DISC could have supplied silver at a lower price. This condition occurred because procurement contracting officers and prime contractors either were not aware of the requirement to use Government-furnished silver or did not consider it. As a result, DoD purchased (b)(4) troy ounces of silver commercially, at an additional cost of (b)(4) over the Government prices of silver.

### **Background**

DoD Directive 4160.22, "Recovery and Utilization of Precious Metals," assigns Defense Logistics Agency management responsibility for the DoD Precious Metals Recovery Program. This program provides for the recovery of silver and other precious metals, which can then be used instead of silver obtained from commercial sources.

Contractors ordinarily furnish materials necessary for the performance of Government contracts. However, under FAR 45.303-1, "Policy," material may be provided when it is in the interest of the Government. If the Government provides the silver, the cost of the item can be reduced.

The DFARS, subpart 208.73, "Use of Government-owned Precious Metals," and DoD Directive 4160.22, promote maximum participation in the Precious Metals Recovery Program. In addition, DFARS 208.7305, "Contract Clause," requires a clause in solicitations for items using precious metals to require contractors to submit two prices--one using Government-furnished silver and the other using contractor-furnished silver.

DISC furnishes silver at recovery cost plus a standard surcharge. This price is usually lower than commercially obtained silver. A comparison of the average commercial price (\$6.64) per troy ounce of silver versus the average DISC price (\$3.01) per troy ounce of silver showed a \$3.63 (55 percent) savings per troy ounce, when Government-furnished silver was used.

In addition to the reduced cost of Government-furnished silver, other costs may also be reduced. For example, if DoD provides silver, then profit, fee, and overhead rates, which may be based on material costs, will be reduced. Also, the costs of the prime contractor can be reduced if Yardney is the subcontractor.

## **Government-Furnished Versus Commercial Silver**

DoD paid an additional (b)(4) for (b)(4) troy ounces of silver obtained commercially. This amount represents the difference between the commercial price and the DISC price. The above figures represent FYs 1990 and 1991 shipments using silver obtained on the open market. We selected 10 pricing actions for review, shown in Appendix B and broken out in the following paragraphs. The actual differences between commercial and DISC-supplied silver ranged from (b)(4) per troy ounce to (b)(4) per troy ounce.

**Army.** The Strategic Defense Command awarded three procurement actions valued at \$337,376 that did not use Government-furnished silver. Procurement officials at the Strategic Defense Command informed us that either they were unaware of the requirement to use Government-furnished silver, or that they did not consider the use of Government-furnished silver. Failure to use Government furnished silver for the procurement of (b)(4) troy ounces cost the Army an additional (b)(4).

**Navy.** The Naval Sea Systems and Supply Systems Commands did not use Government-furnished silver on two procurement actions valued at \$658,699. Navy procurement officials stated that they were unable to determine why Government-furnished silver was not provided. The failure to provide (b)(4) troy ounces of silver cost the Navy an additional (b)(4).

**Air Force.** The Space Systems Division and the Ballistic Missile Organization awarded three procurement actions valued at \$349,479. Air Force procurement officials stated they never considered providing silver. The failure to provide (b)(4) troy ounces of silver cost the Air Force an additional (b)(4).

**Marine Corps.** The Marine Corps System Command awarded one procurement action valued at \$234,522. Marine Corps procurement officials stated that they never considered providing silver. The failure to provide (b)(4) troy ounces of silver cost the Marine Corps an additional (b)(4).

**Strategic Defense Initiative Organization (SDIO).** The SDIO awarded one procurement action valued at \$37,747 without providing Government-furnished silver. The procurement office stated that providing (b)(4) troy ounces of Government-furnished silver was never considered. Not providing Government-furnished silver cost SDIO an additional (b)(4).

## **Recommendation, Management Comments, and Audit Response**

We recommend that the Commanders, Army Strategic Defense Command; the Naval Sea Systems Command; the Naval Surface Warfare Center;



## Finding B. Procurement of Silver on the Open Market

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Headquarters, Space Systems Division, the Air Force Materiel Command; the Ballistic Missile Organization; the Marine Corps Systems Command; and the Strategic Defense Initiative Organization; provide guidance and establish procedures to ensure that silver is provided as Government-furnished material on future contracts in accordance with Defense Federal Acquisition Regulation Supplement 208.73, "Use of Government-owned Precious Metals."

**Management Comments.** The Director, Army Contracting Support Agency, partially concurred with the finding. The Army concurrence with the recommendation was limited to production contracts because the language used in the second sentence in DFARS subpart 208.7302, "Policy," requires DoD Components to use Government-furnished precious metals on production contracts. The Army Strategic Defense Command issued guidance instructing contracting officers to ensure that if precious metals are required in the manufacture of items to be delivered under a contract, the clause at DFARS 252.208-7000 will be included in the solicitation. The Army nonconcurrence applies to contracts for research and development that the Army interprets as not being included in the guidance.

The Navy issued a memorandum on November 19, 1991, reminding the Navy contracting community to follow DFARS policy for precious metals. The Office of the Deputy Assistant Secretary of the Air Force (Contracting) concurred and issued a policy memorandum that reminds contracting officers of their responsibilities under DFARS 208.73.

SDIO concurred with the finding in principle and stated it had "inadvertently" omitted the DFARS clause 252.208-7000, "Intent to Furnish Precious Metals as Government-Furnished Material," from the contract.

SDIO nonconcurred with the loss estimate and stated:

We understand that the loss estimate involved a market price estimation at the time a very small subcontract on an \$83 million effort was performed, and therefore that there may be some indefiniteness in the potential loss estimate.

**Audit Response.** We consider the Army comments to be partially responsive. We agree with the action that the Army Strategic Defense Command has taken to inform contracting officers to include the clause at DFARS 252.208-7000 in solicitations for manufactured items containing precious metals. Although DFARS 208.7302, "Policy," requires DoD Components to furnish recovered precious metals contained in the DISC inventory to production contractors whenever it is in the Government interest, the policy does not exempt research and development contracts from using Government-furnished precious metals. DFARS subpart 208.7302 states, that "DoD policy is for maximum participation in the Precious Metals Recovery Program." Further, subpart 208.7305, "Contract Clause," states:

Use the clause 252.208-7000, Intent to Furnish Precious Metals as Government-Furnished Material, in all (underlining added) solicitations and contracts except--



## **Finding B. Procurement of Silver on the Open Market**

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- (1) When the contracting officer has determined that the required precious metals are not available from the DISC;
- (2) When the contracting officer knows that the items being acquired do not require precious metals in their manufacture; or
- (3) For acquisitions below the small purchase threshold in FAR 13.000.

Based on DFARS 208.7302 and 208.7305, the decision to use Government-furnished precious metals is based on a determination of what is in the best interest of the Government, not the contract type. We request that the Army reconsider its position and provide additional comments to the recommendation.

The SDIO comments were not specific. DoD Directive 7650.3 requires that planned corrective actions be described, including actions already taken and estimated dates for completion of planned actions. The comments do not state what actions were taken or provide estimated dates of completion. We ask that SDIO provide a more specific response to the recommendation.

SDIO disagreement with the loss estimate was based on an apparent lack of understanding of how monetary benefits were determined in the report. The market price was not estimated as stated in the SDIO comments. The price was based on the price of silver charged to the work order by the contractor (see Appendix B). The comparative price was based on the DISC price for silver for the same period. The loss on the contract was based on the difference between the price actually paid and the price Government-furnished silver would have cost.

The Navy and Air Force comments are responsive and no additional comments are required.

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## **Finding C. Internal Controls Over Government-Furnished Silver**

Physical, accounting, and administrative controls over Government silver furnished to Yardney were inadequate because procurement offices and prime contractors did not comply with the FAR and did not establish sufficient internal control procedures. These inadequacies contributed to (b)(4) troy ounces of Government silver that was excess to Yardney's requirements (see Finding A). In addition, residual and deficit silver balances improperly remained on Yardney accounts for up to 12 years.

### **Background**

Under FAR 45.502, "Contractor Responsibility," the contractor is responsible for all Government property, including Government property in the possession of a subcontractor. In addition, the contractor is responsible for reporting all Government property beyond the amount needed to complete full performance under the contract. According to FAR 4.804-5, "Detailed Procedures for Closing Out Contract Files," contract files should not be closed before the evidence of property clearance report is received. This action is intended to ensure that Government property beyond the amount needed to complete full performance of the contract does not remain on the records of the contractor.

### **Controls and Responsibilities**

DoD procurement offices authorized Government-furnished silver to be requisitioned through DISC to be issued to Yardney. Both DISC and Yardney maintained a physical silver inventory at Handy and Harman, Incorporated, a storage contractor.

The buying command initiated a requisition authorizing DISC to transfer a specific silver amount to the Yardney account. A paper transaction reduced the DISC balance and increased the Yardney balance, but no silver was physically moved. At this point, the Government-furnished silver lost its identity and was commingled with Yardney silver within its account.

The actual physical movement of silver occurred when Yardney received new silver in its raw and vendor-fabricated form, such as silver foil, expanded mesh, and strip. Yardney converted silver bullion into silver powder, whereas Handy and Harman, Incorporated, and other vendors converted silver bullion into fabricated materials.



## Finding C. Internal Controls Over Government-Furnished Silver

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The Yardney silver account balance decreased by the amount of silver required to convert silver to silver foil, expanded mesh, and strip. In addition, Yardney paid vendors (b)(4) as a fee for the conversion process.

Silver transferred from Handy and Harman, Incorporated, or other Yardney vendors enabled Yardney to maintain the production inventory. Yardney did not identify silver transferred from vendors to a particular contract.

## Procurement Contracting Offices

The Military Departments and the Defense Logistics Agency procurement offices did not properly manage or evaluate Government-furnished silver provided to Yardney, did not comply with the requirements of the FAR, and did not establish internal controls to ensure that requests for Government-furnished silver were adequately monitored and fully evaluated. As a result, Government-furnished silver was approved in excess of requirements.

According to procurement contracting officers, in cases where Yardney was a subcontractor to another (prime) contractor of the Government, the contracting officers relied on prime contractors to develop silver requirements in conjunction with Yardney. This occurred even though prime contractors had no particular incentive to minimize silver requirements, since costs were passed on to the Government. Procurement contracting officers also relied on prime contractors to communicate requirements or changes in requirements to DISC. In addition, procurement contracting officers did not maintain adequate procedures to account for Government-furnished silver.

At the completion of each work order, Yardney developed a Silver Accountability Report. Theoretically, this report provided (b)(4) (b)(4) on the work order at completion. Yardney maintained a customer-furnished inactive list of residual and deficit silver by work order. We identified 52 work orders with residual or deficit balances. Of these, 34 work orders had residual silver of (b)(4) troy ounces valued at (b)(4) and 18 work orders had deficit silver balances totaling (b)(4) troy ounces valued at (b)(4) (Appendix C). For example, on contract N00039-74-C-0357, (b)(4) troy ounces of Government-furnished silver, valued at (b)(4), remained in the Yardney inventory for more than 12 years because contracting officers did not properly monitor procurement actions bearing Government-furnished silver. In several cases, the contracting officers acknowledged that they were unaware of residual balances.



## **Closeout of Contract Files**

We identified instances where the contracting officer closed contract files containing residual balances. For example, on October 24, 1983, the contracting officer closed contract DAAK10-82-C-0333 with a residual balance of (b)(4) troy ounces. As a result, Government-furnished silver incorrectly remained on Yardney records for more than 8 years without the knowledge of the contracting officer.

## **Controls by the Prime Contractors**

We found 12 work orders where Yardney requested the prime contractor to give disposition instructions on a total of (b)(4) troy ounces of silver. Yardney officials informed the prime contractor they would return the material to DISC if they received no disposition instructions within 60 days. The Yardney officials said they never received disposition instructions; however, Yardney did not return the Government-furnished silver to DISC. The prime contractor took no action to ensure that Yardney returned the silver to DISC. For example, on April 20, 1989, Yardney notified the prime contractor that contract F04701-85-C-0052 contained a residual balance of (b)(4) troy ounces of silver. Yardney stated that they would return the silver to DISC if no disposition instructions were received by June 19, 1989. As of March 30, 1992, 2 years and 9 months after the silver should have been returned to DISC, the silver remained on Yardney records.

## **Conclusion**

We believe that adequate physical, accounting, and administrative controls over Government-furnished silver to Yardney would have prevented requirements from being overstated by (b)(4) troy ounces of Government silver as described in Finding A, and would have prevented residual and deficit silver balances remaining on Yardney accounts for up to 12 years. We estimate that DoD could save (b)(4) troy ounces of silver, valued at about (b)(4), over the next 5 years by improving controls over Government-furnished silver.

## **Recommendations, Management Comments, and Audit Response**

1. We recommend that the Commander, U.S. Army Armament Research, Development, and Engineering Center:



## Finding C. Internal Controls Over Government-Furnished Silver

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a. Establish procedures for contracting officers to monitor and fully evaluate the use of Government-furnished silver before contract close out as prescribed by the Federal Acquisition Regulation.

b. Request the return of residual silver ((b)(4)) troy ounces valued at ((b)(4)) to the Defense Industrial Supply Center (Appendix C).

**Management Comments.** The Director, Army Contracting Support Agency, concurred and developed a procedure for contracting officers to monitor and document usage and disposition of Government-furnished silver. The Army also requested Yardney to return the silver.

2. We recommend that the Commanders, Naval Sea Systems Command, Strategic Systems Programs, Space and Naval Warfare Systems Command, Naval Air Systems Command, Naval Intelligence Command, Naval Supply Systems Command, and Marine Corps Systems Command:

a. Establish procedures for contracting officers to monitor and fully evaluate the use of Government-furnished silver before contract close out as prescribed by the Federal Acquisition Regulation.

b. Request the return of residual silver ((b)(4)) troy ounces valued at ((b)(4)) to the Defense Industrial Supply Center (Appendix C).

c. Transfer deficit silver balances ((b)(4)) troy ounces valued at ((b)(4)) to the Contractor (Appendix C).

**Management Comments.** The Assistant Secretary of the Navy (Research, Development, and Acquisition) nonconcurred with Recommendation C.2.a. and stated that FAR 42.302(a)(26) and (28) and FAR 4.804 place responsibility for property administration and contract closeout on the administrative contracting office. The Assistant Secretary stated that therefore the recommendation concerning administrative procedures should be directed to the Defense Contract Management Command. The Assistant Secretary agreed with Recommendations C.2.b. and C.2.c. and stated the contracting officers initiated action to verify balances and obtain the return of the silver.

**Audit Response.** We disagree with the Navy logic concerning Recommendation C.2.a. FAR 1.602-2, "Responsibilities," states that contracting officers are responsible for ensuring performance of all necessary actions for effective contracting and safeguarding the interests of the United States in its contractual relationships. In addition, under FAR 42.202, "Assignment of Contract Administration," the contracting officer assigns a contract to a contract administration office for administration. As part of the closeout process the administrative contracting office, in accordance with FAR 4.804-5(b)(10), "Detailed Procedures for Closing Out Contract Files," must prepare a statement that all contract administration actions have been fully and satisfactorily accomplished. The signed original of this statement is forwarded to the contracting office. As stated in FAR 4.804-2, "Closeout of the Contracting Office File if Another Office Administers the Contract," the contracting officer shall close contracting files as soon as practicable after



## Finding C. Internal Controls Over Government-Furnished Silver

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receiving a contract completion statement from the contract administration office. The contracting officer shall ensure that all required contractual actions have been completed and shall prepare a statement to that effect. The contracting officer is clearly accountable for the contract without regard to delegation of authority.

The Defense Contract Management Area Operations (DCMAO), Hartford, Connecticut, is responsible for property administration functions at Yardney for the contracts administered by them; not all Government contracts with Yardney are administered by the DCMAO in Hartford. For this, and the reasons stated in the preceding paragraph, the recommendation was properly addressed to the Navy. We ask the Navy to reevaluate their response and provide additional comments. The comments on Recommendations C.2.b. and C.2.c. are responsive.

3. We recommend that the Commander, Headquarters, Space Systems Division, Air Force Materiel Command:

a. Establish procedures for contracting officers to monitor and fully evaluate the use of Government-furnished silver before contract close out as prescribed by the Federal Acquisition Regulation.

b. Request the return of residual silver ((b)(4)) troy ounces valued at ((b)(4)) to the Defense Industrial Supply Center (Appendix C).

c. Transfer deficit silver balances ((b)(4)) troy ounces valued at ((b)(4)) to the contractor (Appendix C).

**Management Comments.** The Office of the Deputy Assistant Secretary of the Air Force (Contracting) concurred and stated guidance was issued to contracting officers on the management of Government-furnished silver and that contracting officers were meeting with the contractor to determine what adjustments were needed on the silver balances with Yardney.

4. We recommend that the Commander, Defense Contract Management Area Operations, Cleveland, Ohio, identify and notify the cognizant procurement offices to:

a. Request the return of residual silver ((b)(4)) troy ounces valued at ((b)(4)) to the Defense Industrial Supply Center (Appendix C).

b. Return the deficit silver balances ((b)(4)) troy ounces valued at ((b)(4)) on 9 work orders for DoD contracts to the contractor (Appendix C).

**Management Comments.** The Deputy Comptroller, Defense Logistics Agency concurred and stated that Yardney was directed to return the residual silver balances.



## Finding D. Storage Contract

DISC improperly awarded a no-cost storage and accountability contract with Yardney. This occurred because DISC did not properly evaluate or adequately justify the need for the contract. As a result, up to (b)(4) troy ounces of Government-furnished silver with a maximum value of (b)(4) were at risk of loss.

### No-Cost Contracts

On October 8, 1986, DISC issued a no-cost storage and accountability contract to Yardney. The contract contained a maximum limit of (b)(4) troy ounces of silver in storage. This contract covered a period of 5 years from the effective date.

In November 1986, the Under Secretary of Defense for Acquisition issued a memorandum that directed the discontinuance of no-cost storage agreements. To comply with the 1986 memorandum, the Defense Logistics Agency issued guidance on February 4, 1987, to negotiate directly funded agreements after existing no-cost storage agreements expired.

### Evaluation Criteria

On December 30, 1991, DISC improperly issued another no-cost storage agreement with Yardney for a maximum limit of (b)(4) troy ounces of silver without adequately evaluating the financial condition and capabilities of the company. This contract also covers a period of 5 years from the effective date.

**Financial.** Aside from the current prohibition on no-cost storage agreements, the contracting officer should determine before awarding a no-cost storage contract that a contractor has a positive financial rating. On August 12, 1991, the Defense Contract Audit Agency (DCAA) issued a report on Yardney, "Report on Audit of Contractor's Financial Capability." The report stated that the contractor was in an unfavorable financial condition. This report was issued 4 months before the award of the no-cost storage contract.

The administrative contracting officer for Yardney informed DISC of the potential risk associated with awarding a no-cost storage contract to Yardney because of Yardney's unfavorable financial condition before the award of the December 30, 1991, contract. On March 17, 1992, DCAA again cited the Yardney financial condition as unfavorable.

**Capabilities.** A storage contractor should have the ability to receive, store, ship, assay, and upgrade precious metals defined as silver, gold, and platinum

metals. Both Handy and Harman, Incorporated, and Engelhard Corporation, the two other storage contractors for DISC, meet this requirement. Both storage contractors also have a basic purchasing agreement that covers assaying and upgrading precious metal.

The Yardney no-cost storage contract required Yardney to store, maintain and protect Government-owned silver only. Yardney has no basic purchasing agreement covering shipping, receiving, assaying and upgrading precious metals.

### Justification

DISC did not properly justify awarding a no-cost storage and accountability contract with Yardney. Specifically, the use of existing storage facilities, the impact on competition and property administration, and the hidden costs were not justified.

**Storage Facilities.** Handy and Harman, Incorporated, and the Engelhard Corporation have pool or transfer accounts with 90 percent of the Government contractors and customers who use silver. These pool accounts simplify shipments of precious metals. According to a November 1, 1989, Defense Logistics Agency memorandum, the precious metals industry recognizes only Handy and Harman, Incorporated, and the Engelhard Corporation as precious metals banks. The industry does not recognize Yardney as a precious metal bank, and Yardney does not operate as a bank.

**Competition.** Yardney is the only storage contractor who is also a battery manufacturer. Competitors claimed to the administrative contracting officer that there was unfair competition because they do not enjoy the advantages of an on-site storage facility. One advantage is the reduced lead time in acquiring Government-furnished silver. Having an on-site storage facility ensures that a sufficient quantity of silver is on hand to begin production immediately. Other contractors must wait for delivery of Government-furnished silver. In addition, battery manufacturers without an on-site storage facility experience increased business costs.

**Property Administration.** DCMAO is responsible for administrative functions necessary for accounting and accountability of Government-owned property. The contract requires Yardney to have silver available in a quantity equal to the quantity recorded as Government-owned property. However, DCMAO cannot ensure that Yardney has a quantity of silver that is equal to the Government-owned property.

Yardney has silver in the form of bullion, strip, and powder. Yardney commingles like properties without marking containers to identify Government property. Commercial firms provided silver to Yardney for their contracts through Handy and Harman, Incorporated, which has a commercial relationship with Yardney for silver. Handy and Harman, Incorporated, did not identify



silver shipments to Yardney as either Government or commercial nor did they identify the shipment to a contract number. Yardney records were the sole source of accountability.

On December 15, 1988, DFARS 245.612-3, "Special Storage at the Government's Expense," was changed to read that all storage contracts will be fully funded and separately priced to include all allocable costs. Despite this guidance, the Yardney no-cost contract states that nothing in the contract precludes Yardney from including an allowable portion of costs as part of the price or cost under Government contracts or subcontracts. Thus, the costs to store property are obscured.

## Conclusion

The existence of a no-cost contract with Yardney left the Government open to allegations of unfair competition. In addition, the contract presented potential risks to the Government due to the unfavorable financial condition of Yardney. We presented the results of our audit to contracting officials at DISC on April 20, 1992.

On April 24, 1992, DISC issued a modification to the storage contract notifying Yardney in writing that the contract would be terminated effective July 23, 1992. For this reason, no recommendation was made.



## **Part III - Additional Information**

## Appendix A. Contracts with Overstated Silver Requirements

Contract Number	Overstated Silver Requirements Per Contract (Troy Ounces)	Value of Overstated Silver
<b>Navy</b>		
N00024-89-C-4008 <sup>1</sup>	(b)(4)	(b)(4)
N00039-88-C-0051 <sup>2</sup>		
N00104-90-C-H102 <sup>3</sup>		
N00189-89-C-0398 <sup>4</sup>		
N00253-89-M-2914 <sup>5</sup>		
N00253-89-M-4355		
N00406-89-C-0092 <sup>6</sup>		
N00421-87-D-0021 <sup>8</sup>		
Order 198		
N62538-90-M-2378 <sup>9</sup>		
N66001-90-M-0133 <sup>10</sup>		
N66604-90-C-6338 <sup>11</sup>		
Navy Total		
<b>Air Force</b>		
F04701-85-C-0019 <sup>13</sup>		
F04701-85-C-0101		
Air Force Total		
<b>Defense Logistics Agency</b>		
DLA400-90-C-0886 <sup>15</sup>		
<b>Summary Total</b>		

- <sup>1</sup> Naval Sea Systems Command, Washington, DC.  
<sup>2</sup> Space and Naval Warfare Center, Washington, DC.  
<sup>3</sup> Navy Ships Parts Control Center, Mechanicsburg, PA.  
<sup>4</sup> Naval Supply Center, Norfolk, VA.  
<sup>5</sup> Naval Undersea Warfare Engineering, Keyport, WA.  
<sup>6</sup> Naval Supply Center, Bremerton, WA.



## Appendix A. Contracts with Overstated Silver Requirements

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- <sup>7</sup> The (b)(4) troy ounces of residual silver is in addition to the (b)(4) troy ounces of Government-furnished silver shown on records of Yardney as of FY 1991.
- <sup>8</sup> Naval Air Warfare Center Aircraft Division, Patuxent River, MD.
- <sup>9</sup> Military Sealift Command, Washington, DC.
- <sup>10</sup> Naval Command Center and Ocean Surveillance Center, San Diego, CA.
- <sup>11</sup> Naval Underwater Systems Center, Newport, RI.
- <sup>12</sup> The (b)(4) troy ounces of residual silver is in addition to the (b)(4) troy ounces of Government-furnished silver shown on the records of the contractor as of FY 1991.
- <sup>13</sup> Headquarters Space Systems Division, Los Angeles, CA.
- <sup>14</sup> The (b)(4) troy ounces of residual silver is in addition to the (b)(4) troy ounces of Government-furnished silver shown on the records of the contractor as of FY 1991.
- <sup>15</sup> Defense General Supply Center, Richmond, VA.

## Appendix B. Silver Procured on the Open Market

Contract Number	Troy Ounces Shipped	Commercial Price Paid Per Troy Ounce	DISC Price Paid Per Troy Ounce	Total Excess Amount Paid <sup>1</sup>	Total Savings Lost <sup>2</sup>
Army Strategic Defense Command					
DASG60-89-C-0091	(b)(4)				
MIPR 42-8543					
MIPR 86-5236					
Army Total					
Naval Sea Systems Command					
N00024-89-C-6034	(b)(4)				
Naval Surface Warfare Center					
N00164-87-C-0128	(b)(4)				
Navy Total					
Marine Corps Systems Command					
N00039-86-C-0068	(b)(4)				
Headquarters Space Systems Division					
F04701-87-C-0005	(b)(4)				
Ballistic Missile Organization					
F04704-86-C-0063	(b)(4)				
F04704-89-C-0056					
Air Force Total					



## Appendix B. Silver Procured on the Open Market

Contract Number	Troy Ounces Shipped	Commercial Price Paid Per Troy Ounce	DISC Price Paid Per Troy Ounce	Total Excess Amount Paid <sup>1</sup>	Total Savings Lost <sup>2</sup>
<b>Strategic Defense Initiative Organization</b>					
SDIO84-90-C-0004	(b)(4)				
Summary Total	(b)(4)				(b)(4)

<sup>1</sup> The difference between the price of silver on the open market and the DISC price of silver.

<sup>2</sup> The number of troy ounces of silver shipped times the excess price paid for silver.

## Appendix C. Silver Balances Remaining at Yardney After Work Order Completion

Contract Number	Work Order	Silver Balance (Troy Ounces)	Final Work Order Ship Date and Total Value of Silver
<b>Army</b>			
DAAK10-82-C-0333 <sup>1</sup>	22870	(b)(4)	Mar. 3, 1983
Total Residual Silver		(b)(4)	
<b>Navy</b>			
N00024-79-C-6003 <sup>2</sup>	22375	(b)(4)	Feb. 12, 1980
N00024-81-C-7085	22627	(b)(4)	July 29, 1981
N00024-85-C-4196	23249	(b)(4)	Oct. 2, 1987
N00024-85-C-6000	23317	(b)(4)	Oct. 18, 1985
N00030-88-C-0088 <sup>3</sup>	23617	(b)(4)	Feb. 20, 1991
N00039-74-C-0357 <sup>4</sup>	22263	(b)(4)	Oct. 25, 1979
N00039-74-C-0357	22146	(b)(4)	June 29, 1979
N00039-82-C-0415	23144	(b)(4)	Oct. 26, 1984
N00039-84-C-0403	23221	(b)(4)	Jan. 23, 1985
N00039-85-C-6041 <sup>5</sup>	23773 <sup>6</sup>	(b)(4)	July 19, 1988
N00039-86-C-0068 <sup>7</sup>	23803	(b)(4)	Oct. 20, 1989
N00039-88-C-0051 <sup>5</sup>	24115 <sup>6</sup>	(b)(4)	Aug. 29, 1991
N00039-88-C-0115 <sup>5</sup>	23826 <sup>6</sup>	(b)(4)	June 19, 1989
N00039-90-C-0087 <sup>5</sup>	24021 <sup>6</sup>	(b)(4)	Sep. 25, 1990
N00104-84-G-A031-0004 <sup>8</sup>	23416	(b)(4)	Nov. 16, 1989
N00140-80-G-9959 <sup>9</sup>	22735	(b)(4)	Apr. 28, 1982
N00140-80-G-9959	22758	(b)(4)	Apr. 2, 1982
N00140-80-G-9959	22694	(b)(4)	Oct. 2, 1981
N00140-82-M-YL93	22952	(b)(4)	Sep. 24, 1985
N00140-82-M-YL93	23332	(b)(4)	Stop Work
N00189-91-C-0287 <sup>10</sup>	24110	(b)(4)	Aug. 29, 1991
N00406-89-C-0146 <sup>12</sup>	23855 <sup>6</sup>	(b)(4)	Apr. 28, 1991
N00421-87-D-0021-0198 <sup>13</sup>	24011	(b)(4)	Aug. 10, 1990
N66001-91-M-0645 <sup>14</sup>	24081 <sup>6</sup>	(b)(4)	Apr. 25, 1991
N68786-84-C-1444 <sup>15</sup>	23547	(b)(4)	May 21, 1987
N68786-84-C-1444	23420	(b)(4)	May 1, 1986
Total Residual Silver		(b)(4)	
Total Deficit Silver		(b)(4)	

See footnotes on last page of this appendix.



### Appendix C. Silver Balances Remaining at Yardney After Work Order Completion

Contract Number	Work Order	Silver Balance (Troy Ounces)	Final Work Order Ship Date and Total Value of Silver
<b>Air Force:</b>			
F04701-78-C-0040 <sup>16</sup>	22726	(b)(4)	Feb. 19, 1982
F04701-78-C-0040	22121		Dec. 7, 1987
F04701-79-C-0014	22619		Dec. 3, 1982
F04701-80-C-0064	22619	Combined with 79-C-0014	
F04701-82-C-0110	23069	(b)(4)	July 25, 1985
F04701-82-C-0110	23199		Oct. 30, 1987
F04701-82-C-0110	22839		Jan. 25, 1985
F04701-83-C-0001	22970		Oct. 28, 1983
F04701-83-C-0001	23417		Oct. 3, 1986
F04701-84-C-0120	23832 <sup>6</sup>		Sep. 8, 1989
F04701-85-C-0019	23545 <sup>6</sup>		July 26, 1991
F04701-85-C-0019	23692 <sup>6</sup>		June 13, 1991
F04701-85-C-0019	23810 <sup>6</sup>		July 26, 1991
F04701-85-C-0052	23546 <sup>6</sup>		Sep. 3, 1987
F04701-85-C-0052	23809		July 28, 1989
F04701-85-C-0101	23720 <sup>6</sup>		Sep. 24, 1990
Total Residual Silver		(b)(4)	
Total Deficit Silver			
<b>Defense Contract Management Area Operation</b>			
Unknown	23306	(b)(4)	May 17, 1985
Unknown	23309		May 31, 1985
Unknown	23312		June 28, 1985
Unknown	23087		Mar. 15, 1984
Unknown	23276		June 7, 1985
Unknown	23300		May 31, 1985
Unknown	23311		May 31, 1985
Unknown	23278		Aug. 8, 1985
Unknown	23292		Aug. 8, 1985
Unknown	23295		May 9, 1985
Total Residual Silver		(b)(4)	
Total Deficit Silver			
Summary Residual Total		(b)(4)	
Summary Deficit Total		(b)(4)	

See footnotes on last page of this appendix.

## Appendix C. Silver Balances Remaining at Yardney After Work Order Completion

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- <sup>1</sup> U.S. Army Armament Research, Development, and Engineering Center, Picatinny Arsenal, Dover, NJ.
- <sup>2</sup> Naval Sea Systems Command, Washington, DC.
- <sup>3</sup> Strategic Systems Programs, Washington, DC.
- <sup>4</sup> Marine Corps Systems Command, Washington, DC.
- <sup>5</sup> Space and Naval Warfare Systems Command, Washington, DC.
- <sup>6</sup> Yardney did not receive requested disposition instructions for remaining silver and subsequently did not return silver to DISC.
- <sup>7</sup> Marine Corps Systems Command, Quantico, VA.
- <sup>8</sup> Navy Ships Parts Control Center, Mechanicsburg, PA.
- <sup>9</sup> Naval Undersea Warfare Center Division, Newport, RI.
- <sup>10</sup> Naval Supply Center, Norfolk, VA.
- <sup>11</sup> On February 21, 1992, DISC provided (b)(4) troy ounces. On February 28, 1992, DISC provided (b)(4) troy ounces. On March 27, 1992, the Naval Supply Center transferred (b)(4) troy ounces to this contract. As of March 30, 1992, Yardney owes the DISC (b)(4) troy ounces.
- <sup>12</sup> Regional Contracting Department, Naval Supply Center, Puget Sound, Bremerton, WA.
- <sup>13</sup> Naval Air Warfare Center, Aircraft Division, Patuxent River, MD.
- <sup>14</sup> Naval Command Control and Ocean Surveillance Center, Research, Development, Test, and Evaluation Division, San Diego, CA.
- <sup>15</sup> Naval Regional Contracting Branch Center, Falls Church, VA.
- <sup>16</sup> Headquarters, Space Systems Division, Los Angeles, CA.
- <sup>17</sup> This includes the (b)(4) troy ounces of silver owed to Yardney as of the date the list was provided. See also footnote 11.



## Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.	Economy and efficiency. Return (b)(4) troy ounces of silver to DISC.	Questioned costs of (b)(4).
A.2.	Economy and efficiency. Return (b)(4) troy ounces of silver to DISC.	Questioned costs of (b)(4).
A.3.	Economy and efficiency. Return (b)(4) troy ounces of silver to DISC.	Questioned costs of (b)(4).
B.	Internal controls. Provide guidance and establish procedures to ensure compliance on future contracts.	Nonmonetary.
C.1.a., C.2.a., and C.3.a.	Internal controls. Establish procedures to ensure compliance on future contracts.	Funds put to better use* (b)(4). Estimated over the next 5 years starting in FY 1993.
C.1.b.	Economy and efficiency. Return (b)(4) troy ounces of silver to DISC.	Questioned costs of (b)(4).
C.2.b.	Economy and efficiency. Return (b)(4) troy ounces of silver to DISC.	Questioned costs of (b)(4).

\* Potential monetary benefits of (b)(4) related to C.1.a., C.2.a., and C.3.a. cannot be directly attributable to a specific Military Department.

## Appendix D. Summary of Potential Benefits Resulting From Audit

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Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
C.2.c.	Economy and efficiency. Return (b)(4) troy ounces of silver to the contractor	Questioned costs of (b)(4).
C.3.b.	Economy and efficiency. Return (b)(4) troy ounces of silver to DISC.	Questioned costs of (b)(4).
C.3.c.	Economy and efficiency. Return (b)(4) troy ounces of silver to the contractor.	Questioned costs of (b)(4).
C.4.a.	Economy and efficiency. Return (b)(4) troy ounces silver to DISC.	Questioned costs of (b)(4).
C.4.b.	Economy and efficiency. Return (b)(4) troy ounces of silver to the contractor.	Questioned costs of (b)(4).

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## **Appendix E. Activities Visited or Contacted**

### **Office of the Secretary of Defense**

Assistant Secretary of Defense (Production and Logistics), Washington, DC  
Strategic Defense Initiative Organization, Washington, DC  
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 Armament Research, Development, and Engineering Center, Picatinny  
Arsenal, NJ  
U.S. Army Strategic Defense Command, Huntsville, AL

### **Department of the Navy**

Strategic Systems Programs, Washington, DC  
Space and Naval Warfare Systems Command, Washington, DC  
Naval Sea Systems Command, Arlington, VA  
Navy Supply Systems Command, Arlington, VA  
Naval Supply Center, Norfolk, VA  
Navy Ships Parts Control Center, Mechanicsburg, PA  
Naval Regional Contracting Center, Philadelphia, PA  
Naval Regional Contracting Branch, Falls Church, VA  
Naval Surface Warfare Center, Crane, IN  
Naval Undersea Warfare Center, Newport, RI  
Naval Coastal Systems Center, Panama City, FL  
Navy Aviation Supply Office, Philadelphia, PA



## **Appendix E. Activities Visited or Contacted**

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### **Department of the Air Force**

Office of the Deputy Assistant Secretary of the Air Force (Contracting), Washington, DC  
Air Force Systems Command, Andrews Air Force Base, MD  
Headquarters, Space Systems Division, Los Angeles, CA  
Ballistic Missile Organization, Norton Air Force Base, CA

### **U.S. Marine Corps**

Marine Corps Systems Command, Quantico, VA  
Marine Corps Systems Command, Washington, DC

### **Defense Activities**

Defense Contract Audit Agency, Hartford, CT  
Headquarters, Defense Logistics Agency, Alexandria, VA  
Defense Industrial Supply Center, Philadelphia, PA  
Defense Contract Management Area Operations, Hartford, CT  
Defense Contract Administration Services Management Area, Cleveland, OH  
Defense General Supply Center, Richmond, VA

### **Non-Defense Activities**

AeroVironment, Incorporated, Simi Valley, CA  
AT&T Bell Laboratories, Whippany, NJ  
AT&T Technologies, Incorporated, Greensboro, NC  
Beech Aircraft Corporation, Wichita, KS  
Boeing Defense and Space Group, Seattle, WA  
Boeing Defense and Space Group, Vandenberg Air Force Base, CA  
Contraves USA, Simulation and Systems Integration, Tampa, FL  
Department of Energy, Albuquerque, NM  
Ernst and Young, Hartford, CT  
General Dynamics, San Diego, CA  
Hughes Aircraft Company, Fullerton, CA  
Hughes Ground Systems Group, Fullerton, CA  
ITT Defense, Clifton, NJ  
ITT Defense, Fort Wayne, IN  
Litton Instruments and Life Support, Davenport, IA  
Lockheed Missiles and Space Company, Palo Alto, CA  
Lockheed Missiles and Space Company, Sunnyvale, CA  
McDonnell Douglas Space Systems Company, Huntington Beach, CA  
New Mexico State University, Las Cruces, NM  
OECO Corporation, Milwaukee, OR  
Orbital Sciences Corporation, Chandler, AZ  
Pennsylvania State University, State College, PA  
Sandia National Laboratories, Albuquerque, NM

**Non-Defense Activities (cont'd)**

Sandia National Laboratories, Livermore, CA

United Technologies, San Jose, CA

Westinghouse Electric Corporation, Cleveland, OH

Westinghouse Electric Corporation, Annapolis, MD

Yardney Technical Products, Incorporated, Pawcatuck, CT

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## **Appendix F. Report Distribution**

### **Office of the Secretary of Defense**

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

### **Department of the Army**

Secretary of the Army  
Inspector General, Department of the Army  
Auditor General, Army Audit Agency

### **Department of the Navy**

Secretary of the Navy  
Assistant Secretary of the Navy (Financial Management)  
Comptroller of the Navy  
Auditor General, Naval Audit Service

### **Department of the Air Force**

Secretary of the Air Force  
Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Air Force Audit Agency

### **Defense Activities**

Director, Defense Contract Audit Agency  
Director, Defense Logistics Agency



## Non-Defense Activities

Office of Management and Budget

General Accounting Office

National Security and International Affairs Division, Technical Information Center

Chairman and Ranking Minority Members of the following Committees and  
Subcommittees:

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Committee on Armed Services

House Committee on Government Operations

House Subcommittee on Legislation and National Security, Committee on  
Government Operations

## **Part IV - Management Comments**

# Department of the Army Comments

## Final Report Reference



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
U.S. ARMY CONTRACTING SUPPORT AGENCY  
5105 LEESBURG PIKE  
FALLS CHURCH, VIRGINIA 22041-5201



REPLY TO  
ATTENTION OF

SFRD-KP

13 AUG 1992

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,  
(AUDITING), 400 ARMY NAVY DRIVE,  
ARLINGTON, VIRGINIA 22202-2884

SUBJECT: Draft Audit Report on Controls Over Government  
Furnished Precious Metals at Yardney Technical  
Products, Incorporated (Project No. 1CD-0054.01)

1. Reference is made to your June 17, 1992, memorandum,  
subject as above.

2. We have reviewed the subject draft report and have obtained  
comments from the U.S. Army Strategic Defense Command and the  
U.S. Army Materiel Command.

3. We offer the following comments:

a. Finding B (page 17). Partially concur. The Strategic  
Defense Command (SDC) awarded only one of the three procurement  
actions. Two of the actions were contracted for by other  
agencies as a result of Military Interdepartmental Purchase  
Requests from SDC. SDC did award contract DASG60-89-C-0091 for  
the development of a target system and flight tests (not for  
hardware). Under this contract, as is the case in most  
research and development efforts, the contractor purchases and  
assembles equipment determined to be necessary to perform  
studies, simulations, etc. The contract deliverable is a  
report providing an analysis of the test results. The language  
in DFARS Subpart 208.73 and the clause at DFARS 252.208-7000  
appears to be directed toward production contracts (i.e.,  
contracts under which manufactured items are to be delivered).

b. Recommendation (page 18): Concur. SDC issued guidance  
on July 24, 1992, instructing each Contracting Officer to  
ensure that if precious metals will be required in the  
manufacture of items to be delivered under a contract, the  
clause at DFARS 252.208-7000 is included in the solicitation.

Page 11

Page 12



SFRD-KP

SUBJECT: Draft Audit Report on Controls Over Government  
Furnished Precious Metals at Yardney Technical  
Products, Incorporated (Project No. 1CD-0054.01)

c. Finding C (page 25). Concur.

Page 15

d. Recommendation 1a (page 26). Concur. The U.S. Army  
Armament Research and Development Command will prepare a  
Standing Operating Procedure requiring Contracting Officers to  
monitor and document the usage and disposition of Government-  
furnished silver. The estimated completion date is  
November 30, 1992.

Page 18

e. Recommendation 1b (page 26). Concur. On March 16,  
1992, the Contracting Officer forwarded a letter to Yardney  
Technical Products requesting that the residual balance of (b)(6)  
troy ounces of silver be transferred to the Defense Industrial  
Supply Center (DISC). DISC also forwarded a letter to Yardney  
requesting this remaining balance of silver be transferred into  
the pool. Yardney has indicated that the silver will be  
transferred by September 30, 1992.

Page 18

4. The point of contact for this action is (b)(6)

(b)(6)

(b)(6)

CC:

SARD-DER, ATTN: (b)(6)  
SAIG-PA, ATTN:  
AMCIR-A, ATTN:  
CSSD-OA, ATTN:

# Department of the Navy Comments

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THE ASSISTANT SECRETARY OF THE NAVY  
(Research, Development and Acquisition)  
WASHINGTON, D.C. 20350-1000

SEP 25 1992

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT AUDIT REPORT ON CONTROLS OVER GOVERNMENT  
FURNISHED PRECIOUS METALS AT YARDNEY TECHNICAL  
PRODUCTS, INCORPORATED (PROJECT NO. ICD-0054.01)

Ref: (a) DODIG Memo of 17 Jun 92, same subj

Encl: (1) DON Response to Draft Audit Report

This is in response to reference (a) concerning the procurement and management of Government furnished silver. We generally agree with the draft report findings and recommendations. As outlined in the comments in Enclosure (1) the Navy has taken action to ensure adequate management control of similar contracts in the future.

(b)(6)

Copy to:  
NAVINSGEN  
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY RESPONSE TO DODIG  
DRAFT AUDIT REPORT ON CONTROLS OVER GOVERNMENT FURNISHED  
PRECIOUS METALS AT YARDNEY TECHNICAL PRODUCTS, INCORPORATED  
(PROJECT NO. 1CD-0054.01 DATED JUNE 17, 1992)

**DODIG FINDINGS:**

This audit examined the methods used to establish requirements for Government-furnished silver and the adequacy and effectiveness of internal controls over silver at Yardney Technical Products, Incorporated. The audit concluded that both areas need improvement. The audit addresses the subject DOD wide; we have tailored the findings, recommendations and responses to the Navy portion only.

**FINDING A:** Yardney overstated the quantity of silver required to produce batteries, battery cells, and cathodes on Navy contracts and subcontracts. As a result, the Navy furnished (b)(4) troy ounces of silver over actual production requirements on 11 contracts valued at (b)(4).

**DODIG RECOMMENDATION:** We recommend that the Assistant Secretary of the Navy (Acquisition) request the cognizant procurement contracting officers to initiate action to obtain a return to the Defense Industrial Supply Center (DISC) of (b)(4) troy ounces of silver valued at (b)(4) on the 11 contracts listed in Appendix A.

**DON COMMENT:** Concur. We issued a memorandum on September 17, 1992 to the appropriate systems commands requesting they review the contracts and have the contractor return residual silver to DISC.

**FINDING B:** Yardney and DoD obtained silver on the open market on three pricing actions although DISC could have supplied silver at a lower price. As a result, Yardney purchased (b)(4) troy ounces of silver at an additional cost of (b)(4) to the Navy.

**DODIG RECOMMENDATION:** We recommend that the Naval Sea Systems Command, the Naval Surface Warfare Center and the Marine Corps Systems Command provide guidance and establish procedures to ensure that silver is provided as Government-furnished material on future contracts in accordance with Defense Federal Acquisition Regulation Supplement 208.73, "Use of Government-owned Precious Metals."

**DON COMMENT:** Partially concur. We have concluded that the policy and procedures in DFARS 208.73 "Use of Government-Owned Precious Metals" are adequate. These regulations require the contracting officers to obtain a Government furnished as well as a contractor furnished price for appropriate contracts and to use furnish recovered precious metals whenever it is in the Government's best interest. By memorandum of November 19, 1991 we reminded the Navy contracting community to follow DFARS policy for precious metals.

~~FOR OFFICIAL USE ONLY~~



**DODIG FINDING C:** Physical, accounting, and administrative controls over Government-furnished silver to Yardney were inadequate. These inadequacies contributed to the loss of (b)(4) from overstated requirements and created subsequent balances of Government-furnished silver. Improved controls over the silver should result in elimination of an estimated loss of (b)(4) over the next five years. In addition, Yardney improperly maintained Navy furnished silver with residual and deficit balances for periods of up to 12 years.

**DODIG RECOMMENDATION C-2:** We recommend that the Commanders, Naval Sea Systems Command, Strategic Systems Programs, Marine Corps Systems Command, Space and Naval Warfare Systems Command, Naval Air Systems Command, Naval Intelligence Command, and Naval Supply Systems Command:

- a. Establish procedures for contracting officers to monitor and fully evaluate the use of Government-furnished silver before contract close out as prescribed by the FAR.
- b. Request the return of residual silver ((b)(4) troy ounces valued at (b)(4) ) to the Defense Industrial Supply Center.
- c. Return deficit silver balances ((b)(4) troy ounces valued at (b)(4) ) to the Contractor.

**DON COMMENT:**

a. Pursuant to FAR 42.302 (a) (26) and (28) the administrative contracting office is responsible for property administration and pursuant to FAR 4.804 is also responsible for contract closeout. The Defense Contract Management Area Operations in Hartford, Connecticut is responsible for property administration functions for Yardney. The recommendation concerning administrative procedures should be directed to the Defense Contract Management Command.

b. and c. Partially concur. The procuring contracting officer for contract N00039-74-C-0357 has requested the administrative contracting officer promptly close the contract and have Yardney return any residual. The other Navy procuring contracting offices have contacted the administrative contracting offices to request their action to verify the balances and where appropriate have the silver returned and contracts closed.

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# Department of the Air Force Comments



OFFICE OF THE ASSISTANT SECRETARY

## DEPARTMENT OF THE AIR FORCE WASHINGTON DC



SAF/AQCO  
Pentagon, Room 4C276  
Washington DC 20330-1000

AUG 19 1992

### MEMORANDUM FOR DOD/IG

**SUBJECT:** DoD(IG) Draft Report of Audit on Controls Over Government-Furnished Precious Metal at Yardley Technical Products, Incorporated (Product Number 1CD-0054.01) -  
**INFORMATION MEMORANDUM**

We've reviewed subject draft report of audit in accordance with your memorandum and offer the following responses to your recommendations that involve Air Force activities:

Recommendation A.2. We recommend that the Commander, Headquarters, Space Systems Division, Air Force Systems Command, initiate action to obtain a return of (b)(4) troy ounces of silver valued at (b)(4) on contracts F04701-85-C-0019 and F04701-85-C-0101 to the Defense Industrial Supply Center.

Response: Concur: Headquarters, Space and Missile Systems Center, Air Force Material Command will hold discussions with the prime contractors on both contracts on the recovery of precious metals and make applicable adjustments to the contracts. Estimated completion date for this action is December 31, 1992.

Recommendation B. We recommend that the Director, Strategic Defense Initiative Organization; and that the Commanders, U.S. Army Strategic Defense Command; the Naval Sea Systems Command; the Naval Surface Warfare Center; the Marine Corps Systems Command; Headquarters Space Systems Division, Air Force Systems Command; and the Ballistic Missile Organization provide guidance and establish procedures to ensure that silver is provided as Government-furnished material on future contracts in accordance with Defense Federal Acquisition Regulation Supplement 208.73, "Use of Government-owned Precious Metals."

**Response:** Concur. Headquarters Space and Missile Systems Center, Air Force Materiel Command issued the attached guidance on July 29, 1992. Therefore, we consider this item to be closed.

**Recommendation C.3.** We recommend that the Commander, Headquarters Space Systems Division, Air Force Systems Command:

a. Establish procedures for contracting officers to monitor and fully evaluate the use of Government-furnished silver before contract close out as prescribed by FAR.

b. Request the return of residual silver ((b)(4) troy ounces valued at (b)(4) ) to the Defense Industrial Supply Center .

c. Return deficit silver balances ((b)(4) troy ounces valued at (b)(4) ) to the Contractor (Appendix C).

**Response:** Concur. Headquarters Space and Missile Systems Center, Air Force Materiel Command, issued the attached guidance that discusses Contracting Officer's responsibilities regarding precious metals at contract close out on July 29, 1992. Therefore, we consider action C.3.a. to be closed. The cognizant Contracting Officers at SMC/PC will meet with the prime contractors of affected contracts and determine what adjustments need to be made to the amounts of silver held by Yardley Technical Products, Incorporated. Following those determinations, appropriate adjustments will be made to the affected contracts. Our estimated completion date of C.3.b and C.3.c is December 31, 1992.

Our action officer for this issue is (b)(6) SAF/AQCO, (b)(6) . Please contact her if you require further assistance in this matter.

(b)(6)

1 Atch  
SMC/PC Memo, July 29, 1992





DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS SPACE AND MISSILE SYSTEMS CENTER (AFMCC)  
LOS ANGELES, CA

29 JUL 1992

FROM: PKC

SUBJ: Controls over Government-Furnished Precious Metals

TO: Recipients of SMC/PK Informational Policy Letters

1. A recent DoD IO Audit Report identified instance where buying offices failed to insure compliance with the DoD policy on treatment of Government-furnished precious metals.

2. The DoD FAR Supplement Subpart 208.73 requires maximum participation in the Precious Metals Recovery Program (PMRP). DoD production contractors must use recovered precious metals furnished by the Government unless the Contracting Officer determines it is not in the best interest of the Government to do so. The Defense Utilization and Disposal Manual, DoD 4160.21-M provides details on PMRP.

3. Contracting Officers must insure that the contractors comply with these directives and should monitor and fully evaluate the use of Government-furnished precious metals prior to contract closeout.

(b)(6)

Contract Review & Policy Committee  
DCS/Contracting

# Department of Defense Comments



DEPARTMENT OF DEFENSE  
STRATEGIC DEFENSE INITIATIVE ORGANIZATION  
WASHINGTON, DC 20301-7100

September 9, 1992

(b)(6)  
(b)(6) Contract Management Directorate  
Inspector General, Department of Defense  
400 Army Navy Drive  
Arlington, VA 22202-2884

Dear (b)(6):

Thank you for the opportunity to comment afforded me by your June 17, 1992, memorandum relaying your draft report on Controls over Government-furnished precious metals at Yardney Technical Products, Inc. (Project No. LCD-0054.01). This report found that the failure to provide Government-furnished silver on an unidentified Strategic Defense Initiative Organization (SDIO) contract valued at (b)(4) cost the Government an additional (b)(4).

Without any reference to the contract number, of course, we could not initially verify any of the stated details concerning the contracting action, including that the contract did omit the clause required by DFARS 208.7305, to wit 252.208-7000, "Intent to Furnish Precious Metals as Government-Furnished Material." (b)(6), did furnish sufficient details on June 23, 1992, to permit us to validate these findings.

We understand that the loss estimate involved a market price estimation at the time a very small subcontract on an \$83 million effort was performed, and therefore that there may be some indefiniteness in the potential loss estimate. Nevertheless, we agree that the clause was inadvertently omitted.

Thank you for bringing the matter to my attention. I have taken steps to ensure that future SDIO contracts comply with this DFARS requirement.

Sincerely,

(b)(6)



# Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
CAMERON STATION  
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY  
REFER TO DLA-CI

10 AUG 1992

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR CONTRACT  
MANAGEMENT, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on the Controls Over Government-  
Furnished Precious Metals at Yardney Technical  
Products, Incorporated (Project No. 1CD-0054.01)

This is in response to your memorandum of 17 June 1992.  
(b)(6), Defense Logistics  
Agency, approved these positions.

(b)(6)

3 Encl

(b)(6), Internal Review Division  
Office of Comptroller

CC:  
DCMC-AM



## Defense Logistics Agency Comments

TYPE OF REPORT: AUDIT

DATE OF POSITION: 10 Aug 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Controls Over Government-Furnished Precious Metals at Defense Contractors Yardney Technical Products (Project No. 1CD-0054.01)

RECOMMENDATION A.3.: We recommend that the Commander, Defense General Supply Center, initiate action to obtain a return of (b) troy ounces of silver valued at (b) on contract DLA400-90-C-0886 to the Defense Industrial Supply Center.

DLA COMMENTS: Concur. Yardney Technical Products Inc., sent a letter dated 22 Oct 90 with a copy to DISC stating there is a residual balance of (b)(4) troy ounces silver. The letter stated if disposition instructions for this material were not furnished in 60 days, the silver would be presented to DISC for disposition back into the DLA/DISC Controlled Precious Metal Supply Management system. Disposition was not provided by the Procuring Contracting Officer at DGSC; however, disposition was given by DISC in Jan 92 for (b)(4) troy ounces of silver to be transferred from DLA400-90-C-0886 to storage contract DLA500-86-C-3405.

The contractor, Yardney Technical Products, Inc. provided adequate records reflecting the amount of Government-owned silver received, utilized, delivered and remaining, and followed procedures required by the contract to return unused Government furnished silver.

**DISPOSITION:**

(X) Action is considered complete.

**INTERNAL MANAGEMENT CONTROL WEAKNESS:**

- ( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
- ( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: (b)(6)

PSE REVIEW/APPROVAL: (b)(6)

(b)(6) Contracting

DLA APPROVAL: (b)(6)

TYPE OF REPORT: AUDIT

DATE OF POSITION: 10 Aug 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Controls Over Government-Furnished Precious Metals at  
Defense Contractors Yardney Technical Products  
(Project No. 1CD-0054.01)

RECOMMENDATION C.4.a: Recommend that the Commander, Defense Contract  
Management Area Operations, Cleveland, Ohio, identify and notify the  
cognizant procurement offices to request the return of residual silver  
(b)(4) troy ounces valued at (b)(4) to the Defense Industrial Supply  
Center (Appendix C).

DLA COMMENTS: Concur. Westinghouse Electric Corporation, Electronic  
Systems Group, Cleveland, Ohio, has been identified as the prime contractor  
for the (b)(4) troy ounces and the (b)(4) troy ounces of silver identified in  
recommendation C.4.b. below. Westinghouse Electric by letter dated  
31 Mar 92, and the Defense Industrial Supply Center (DISC) by letter dated  
29 Jul 92, subject: Residual Balances of Silver, have directed Yardney  
Technical Products to reconcile the balances, and to transfer the net  
difference to DISC contract number DLA500-90-C-1707, with Handy & Harmon,  
South Windsor, Connecticut. We expect this action to be completed by  
1 September 1992.

DISPOSITION:

(X) Action is ongoing. Estimated Completion Date: 1 Sept 1992.

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- ( ) Nonconcur. (Rationale must be documented and maintained with  
your copy of the response.)
- (X) Concur; however, weakness is not considered material. (Rationale  
must be documented and maintained with your copy of the response.)  
The problem cited resulted from only one contractor's failure to  
fulfill its contractual obligation to control Government property  
provided to subcontractors.
- ( ) Concur; weakness is material and will be reported in the DLA  
Annual Statement of Assurance.

ACTION OFFICER: (b)(6)

PSE REVIEW/APPROVAL: (b)(6) Contract Management, 8/3/92

DLA APPROVAL: (b)(6)

## Defense Logistics Agency Comments

TYPE OF REPORT: AUDIT

DATE OF POSITION: 10 Aug 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Controls Over Government-Furnished Precious Metals at  
Defense Contractors Yardney Technical Products  
(Project No. LCD-0054.01)

RECOMMENDATION C.4.b: Concur. We recommend that the Commander, Defense Contract Management Area Operations, Cleveland, Ohio, identify and notify the cognizant procurement offices to return the deficit silver balances ((b)(4)) troy ounces valued at ((b)(4)) on 9 work orders for DoD contracts to the contractor (Appendix C).

DLA COMMENTS: Action to respond to this recommendation is the same as identified in DLA's response to recommendation C.4.a above.

DISPOSITION:

(X) Action is ongoing. Estimated Completion Date: 1 Sept 1992

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- ( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.) The problem cited resulted from only one contractor's failure to fulfill its contractual obligation to control Government property provided to subcontractors.
- ( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: ((b)(6))

PSE REVIEW/APPROVAL: ((b)(6))  
((b)(6)), Contract Management, 8/3/92

DLA APPROVAL: ((b)(6))



## **Audit Team Members**

(b)(6)



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