June 20, 1995

IG-1

INFORMATION: Report on "Audit of the Department of Energy's Management of Precious Metals"

The Secretary

BACKGROUND:

The subject report is provided to inform you of our finding and recommendations. The objectives of the audit were to determine if Departmental and contractor officials were identifying and disposing of excess precious metals, ensuring that precious metals custodians adhered to the requirements contained in the Department's property management regulations, and developing a coordinated plan for recovering precious metals from dismantled weapons.

As of September 30, 1994, the Department owned precious metals worth approximately $88 million. This included about $52 million that was on hand at Departmental sites and approximately $36 million that could potentially be recovered from nuclear weapons.

DISCUSSION:

The Department had not developed an effective method for disposing of $10.3 million of existing excess precious metals. This disposal problem will be compounded in the future when $36 million of additional precious metals are recovered from dismantled nuclear weapons. Retention of excess metals occurred because the Department did not consider precious metals management a high priority.

Management concurred with our recommendations and agreed to identify excess precious metals and develop a more effective disposal mechanism. Part II of this report provides details of our finding and Part III includes detailed management and auditor comments.

(Signed)
John C. Layton
Inspector General

Attachment

cc: Deputy Secretary
Under Secretary
Assistant Secretary for Human Resources and Administration

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF THE DEPARTMENT OF ENERGY'S
MANAGEMENT OF PRECIOUS METALS

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES

AUDIT OF THE DEPARTMENT OF ENERGY'S MANAGEMENT OF PRECIOUS METALS

Audit Report Number: DOE/IG-0375

SUMMARY

The U.S. Department of Energy (Department) used precious metals primarily in the production of nuclear weapons. In accordance with Strategic Arms Reduction Treaties, the Department stopped producing nuclear weapons and much of its precious metals inventory became excess to programmatic need.

The purpose of the audit was to determine if the Department and contractor officials were efficiently and effectively administering this valuable asset. We found that 6 of 11 Departmental organizations were not adequately identifying and disposing of excess precious metals. At the time of the audit, the Department had approximately $52 million worth of precious metals inventory on hand. Included in this inventory was about $10.3 million that was considered excess. In addition, the Department has the opportunity to recover precious metals worth about $36 million from disassembled nuclear weapons that will also be excess to programmatic need. Although substantial quantities of excess precious metals existed, property management officials had not developed effective procedures to dispose of excess metals through other Government agencies or on the open market.

The Director, Office of Contractor Management and Administration concurred with the audit recommendations and agreed to identify excess precious metals and develop a more effective disposal mechanism.

(Signed)

Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

As of September 30, 1994, the U.S. Department of Energy's (Department) precious metals inventory was estimated to be worth approximately $52 million. In addition, precious metals estimated to be worth about $36 million could be recovered from disassembled nuclear weapons. The purpose of this review was to determine if Departmental and contractor officials were efficiently and effectively administering this valuable asset.

The objectives of the audit were to determine if Departmental and contractor officials were identifying and disposing of excess precious metals, ensuring that precious metals custodians adhered to the requirements contained in the Department's property management regulations, and developing a coordinated plan for recovering precious metals from dismantled weapons.

SCOPE AND METHODOLOGY

A review was made of the administration of the Department's precious metals inventory. The review was performed at Department of Energy Headquarters and 11 cognizant Departmental organizations who are responsible for managing the Department's precious metals. At Headquarters, we spoke to officials from the Offices of Property Management, Defense Programs, Procurement Operations, and Headquarters Accounting. Additionally, we visited 5 of the 11 cognizant Departmental organizations: Albuquerque, Oak Ridge, Oakland, Savannah River Operations Offices, and Pittsburgh Naval Reactors. As part of our review of the Albuquerque Operations Office, we visited the Kansas City Field Office and the Amarillo Area Office. Officials from the remaining six organizations holding precious metals responded to internal control questionnaires.

The Department's management of precious metals was addressed by evaluating the identification and disposition of excess precious metals, custodian compliance with the property management regulations, and the plan for recovering precious metals from disassembled nuclear weapons. To determine if the Department was identifying and disposing of excess precious metals, we verified the performance of annual reviews for excess precious metals; discussed precious metals utilization with custodians; and reviewed the operation of precious metals pools. A determination was also made whether precious metals custodians adhered to the requirements contained in the Department's property management regulations by testing compliance with each requirement. Further, data contained in the Department's financial information system was reconciled with physical inventory data provided by management and operating contractors, nonmanagement and operating prime contractors, and subcontractors. Finally, we determined if the Department had developed a coordinated plan for recovering precious metals from dismantled weapons by ascertaining which sites were responsible for recovery operations and reviewing the precious metals recovery plans at these sites.

The market value of the Department's precious metals was determined by obtaining information on the total number of grams for each precious metal held by each cognizant Departmental organization as of September 30, 1994. We converted the grams to troy ounces and determined the market value of the precious metals as of that date. This same approach was used to determine the market value of the Department's excess precious metals.

We relied on computer generated data principally to determine the cognizant Departmental organizations holding precious metals. Therefore, we did not perform a comprehensive evaluation of the reliability of this data. The audit was made in accordance with generally accepted Government auditing standards for performance audits. This included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the objectives of the audit. Because the review was limited, it would not necessarily have disclosed all internal control deficiencies that may exist.

The audit fieldwork was performed from April through December 1994. Exit conferences were held with the Office of Contractor Management and Administration on April 19, 1995, and May 25, 1995.

BACKGROUND

As of September 30, 1994, the Department owned precious metals worth approximately $88 million. This included about $52 million that was on hand at Departmental sites and approximately $36 million that could potentially be recovered from nuclear weapons. The term "precious metals" is defined in the property management regulations as uncommon and highly valuable metals characterized by their superior resistance to corrosion and oxidation. Eight metals fall under this definition: gold, silver, platinum, palladium, rhodium, iridium, ruthenium, and osmium. These metals were primarily used in the production of nuclear weapons. To prevent possible out-of-stock situations that would have impeded production, the Department stockpiled these metals in "pools." Due to the effects of inflation and market forces, the market value of these precious metals at the time of our audit was substantially greater than their original cost. Management and operating contractors controlled almost 100 percent of the on-hand precious metals. Over 90 percent of these precious metals were under the cognizance of the operations offices located at Albuquerque, New Mexico; Chicago, Illinois; Oak Ridge, Tennessee; Oakland, California; and Savannah River, South Carolina.

In accordance with Strategic Arms Reduction Treaties and Presidential initiative, the United States stopped producing nuclear weapons. This initiative changed the Department's primary mission at nuclear weapons production sites from weapons production to environmental restoration. With this change, the primary use of precious metals--to produce nuclear weapons--ceased to exist and significant quantities of precious metals were no longer needed for programmatic requirements. In addition, several weapons systems containing substantial quantities of recoverable precious metals were scheduled to be disassembled. The Department plans to disassemble about 10,000 nuclear weapons during the next 10 years. In many cases, the precious metals contained in these systems were purchased during the 1950's. Therefore, their aggregate market value was substantially larger than their aggregate cost.

In 1981, the Office of Inspector General conducted an audit of the Department's management of precious metals. As a result of this audit, the Inspector General recommended that the Department approve the operation of a centralized precious metals pool that included all types of precious metals; revise the property management regulations to include policies and procedures for the pool's operation; evaluate the need for separate pooling and reprocessing arrangements; and establish a program to periodically review precious metals needed by contractors to determine excess. In 1984, the Office of Contractor Management and Administration complied with this recommendation by updating the property management regulations to include policies and procedures for the performance of annual reviews for excess precious metals and the operation of a centralized precious metals pool at the Fernald site.

The administration of the Department's precious metals pool was transferred from Fernald to Martin Marietta Energy Systems in February 1991. At the time of the transfer and through Fiscal Year 1994, the precious metals pool had a budget of approximately $1.5 million and operated on a cash basis. The value of the precious metals in the pool was not permitted to exceed this amount. Martin Marietta Energy Systems charged the Department's contractors the average historic value of the precious metals plus a prorated portion of the pool's administrative costs when they obtained precious metals from the pool. Departmental contractors were paid the average historic value less refining charges for scrap and excess precious metals when they returned them to the pool. The only source of cash available to the pool manager was revenue generated from the sale of precious metals to Departmental organizations and contractors.

OBSERVATIONS AND CONCLUSIONS

The Department needs to more effectively and efficiently manage its inventory of precious metals. The audit disclosed that 6 of 11 Departmental organizations were not adequately identifying and disposing of excess precious metals. Compounding this problem was the fact that the Department could recover substantial quantities of precious metals from disassembled nuclear weapons that will be excess to programmatic need. In this regard, officials involved with the Dismantlement Program developed a plan to recover these precious metals, but property management and Defense Programs officials had not addressed the issues relating to their disposal.

These conditions existed because the Department did not consider precious metals management a high priority. This was evidenced by the fact that 6 of 11 Departmental organizations were not ensuring that existing property management regulations were followed, and the Department had not revised the property management regulations to reflect mission change. At the time of the audit, the Department had about $10.3 million worth of excess precious metals on hand. In addition, it could recover an additional $17 million of excess precious metals over the short-term and about $19 million over the long-term from dismantled nuclear weapons.

To address these issues, the Department must place greater emphasis on the management of precious metals. First, the Department should take appropriate steps to ensure that existing property management regulations are implemented by the using organizations. This includes ensuring that unauthorized precious metals pools are discontinued; required annual reviews to determine the amount of excess are made; and financial records are reconciled with on-hand inventories so they accurately portray the precious metals balances within the Department. Second, the Department needs to change its property management regulations to permit the Departmental pool to dispose of excess precious metals to other Government agencies and on the open market.

During the course of our review, management initiated several actions addressing property management issues in general as well as concerns regarding the management of precious metals. As part of the program to improve management of materials, the Secretary of Energy, on August 26, 1994, established a Departmentwide initiative to develop a Baseline Inventory Report. The management of precious metals, including possible paths of disposition, was being reviewed in this study. In addition, the Department's Office of Contractor Management and Administration established a task force in November 1994 to identify the extent of excess precious metals and determine policy and procedural changes necessary to make Departmental precious metals management more effective. This task force has recommended converting the currently "funded" Departmental precious metals pool to a nonfunded reserve and returning excess precious metals to this pool for disposal through normal excess channels. Further, property management officials were in the process of amending the property management regulations to address the changes in precious metals use caused by the Department's mission change. The amended regulations are expected to be reviewed by the Department's General Counsel during August 1995.

The Department's current actions combined with the implementation of the recommendations contained in this report should result in more effective and efficient management of precious metals. By implementing the audit recommendations, excess precious metals will be identified and controlled; accountability will be improved; and the Department will dispose of unneeded precious metals. The performance of these actions could result in reducing the Department's operating costs and, possibly, the return of significant dollars to the U.S. Treasury.

Management concurred with our recommendations and agreed to identify excess precious metals and develop a more effective disposal mechanism. Management comments are discussed in detail in Part III of this report.

PART II

FINDING AND RECOMMENDATIONS

Administration of Precious Metals

FINDING

Departmental organizations and contractors are required by Departmental property management regulations to maintain only those precious metals necessary to satisfy programmatic needs and to establish effective procedures and practices for the administration and physical control of precious metals. However, the Department's administration of precious metals was not effectively and efficiently meeting these requirements. Specifically, 6 of 11 Departmental organizations did not adequately identify excess precious metals nor did the Department have a plan to dispose of excess metals. These conditions existed because Departmental management did not consider the administration of the precious metals inventory to be a high priority. As a result, the Department did not ensure compliance with existing property management regulations and did not amend the existing policies and procedures to address the reduction in demand caused by the change in the Department's mission. Resolving these issues could result in immediate sales of excess precious metals valued at approximately $10.3 million and substantially larger sales of as much as $36 million through the disposition of precious metals recovered from disassembled weapons. The revenues from these and future sales could be used for other appropriate Departmental purposes or they could be returned to the Treasury.

RECOMMENDATIONS

We recommend that the Deputy Assistant Secretary, Procurement and Assistance Management, in coordination with the Associate Deputy Secretary for Field Management, place greater emphasis on the management of precious metals by:

1. Directing cognizant Departmental offices to ensure compliance with existing Departmental property management regulations. More specifically, these organizations should:

   a. discontinue operation of unauthorized precious metals pools;

   b. ensure that using organizations conduct required annual reviews to determine excess quantities of precious metals; and

   c. ensure that the using organizations are providing accurate, current, and complete information to the Department's Financial Information System.

2. Revising the policies and procedures for the management

of precious metals that reflect the current mission of the Department. Specifically, the Department needs to:

a. ensure that the Department's centralized precious metals pool is able to accept and process excess precious metals identified by using organizations;

b. provide an effective mechanism for the centralized Departmental precious metals pool to dispose of excess precious metals; and

c. define current and foreseeable need for precious metals in the property management regulations.

MANAGEMENT REACTION

Management agreed with the audit recommendations. Part III of this report addresses management and auditor comments.

DETAILS OF FINDING

Department of Energy Property Management Regulation 109-27.53 establishes policies, principles, and guidelines for Departmental organizations and contractors managing Department-owned precious metals. To implement this regulation, the Department requires that its organizations and contractors establish effective procedures and practices for the administrative and physical control of precious metals. Specifically, Departmental and contractor officials are required to annually review the quantity of precious metals on hand to determine if this quantity is in excess to programmatic requirements; establish a program for the recovery of precious metals; and implement adequate internal controls to safeguard the precious metals.

In addition, Departmental regulations require the operation of a central precious metals pool. The purpose of this pool is to recycle Department-owned precious metals within the Department at the minimum cost to participants. Precious metals not needed for current and foreseeable requirements are to be promptly reported and returned to the central precious metals pool. To assist in this determination, the regulations require the precious metals control officer of each using organization to annually prepare and submit a forecast of anticipated withdrawals from and returns to the Department's precious metals pool.

MANAGEMENT OF PRECIOUS METALS

The Department and contractor administration of precious metals at 6 of 11 organizations was not effective and efficient because excess metals were on hand, additional excesses were expected to be recovered, and there was no method of disposing of these excess precious metals. The Department and its contractors are required to identify and return excess Government-owned precious metals in accordance with the Department's property management regulations. However, many using organizations had not adequately identified on-hand excess precious metals. Even those organizations who had properly identified excess precious metals were unable to return them because the Department had not developed a plan to dispose of the excess. The latter issue is of particular importance, since the Department could recover substantial quantities of precious metals from disassembled weapons.

Excess Precious Metals On Hand

Property management regulations require Departmental organizations and contractors holding precious metals to annually review the quantity of precious metals on hand to determine if this quantity exceeds programmatic need. Many using organizations, however, had not conducted valid reviews for programmatic need since the cessation of weapons production. In response to audit inquiries, property management officials at the using organizations reviewed the need for their precious metals inventories. As a result of these reviews, precious metals valued at approximately $10.3 million or 20 percent of the present inventory were reported as excess to programmatic need. The following table shows the organizations identifying excess precious metals on hand as of September 30, 1994, and the value of excess they reported.

TABLE 1
VALUE OF PRECIOUS METALS IDENTIFIED AS EXCESS

Departmental Organization	Market Value of Excess Precious Metals As of September 30, 1994
Albuquerque	$4,002,311
Chicago	205,260
Idaho	29,123
Nevada	51,458
Oak Ridge	2,317,641
Oakland	2,870,025
Pittsburgh Energy Technology Center	18,389
Pittsburgh Naval Reactors	9,815
Richland	217,995
Savannah River	518,073
Schenectady Naval Reactors	14,584
Total Excess	$10,254,674

Additional Excess Precious Metals

The audit disclosed additional excess precious metals on hand at several of the sites where reviews for programmatic need were made. Departmental regulations stipulate that precious metals not required for current and foreseeable need be returned to the precious metals pool. While performing tests of internal controls, we asked precious metals custodians whether they had justified retaining their precious metals during the annual review for excess conducted by the precious metals control officer. We were informed by the custodians at several sites that the precious metals control officers were not performing required annual reviews to determine if any excess metals were on hand. Rather, they allowed the custodians and their program managers to complete a form letter stating they needed their current inventory. In many instances, the custodians told us they were not required by the precious metals control officer to justify retaining their precious metals inventories based on programmatic need.

Based upon further analysis, we determined that 21 of 80 (26 percent) custodians were holding precious metals that had not been used for over 2 years. None of the 21 custodians provided adequate justification, i.e., programmatic need, for retaining their precious metals. Table 2 shows by site the custodians that were visited and those custodians whose inventory of precious metals had not been used during the last 2 years.

TABLE 2
UTILIZATION OF PRECIOUS METALS
BY CUSTODIANS DURING FISCAL YEARS 1993 AND 1994

Cognizant Departmental Organization	Custodians Visited At Each Site	Custodians Reporting No Use
Albuquerque	26	7
Oak Ridge	29	7
Oakland	11	3
Pittsburgh Naval Reactors	9	0
Savannah River	5	4
Totals	80	21

The audit also noted that the Department expects to recover additional metals from disassembled nuclear weapons. Defense Programs officials responsible for disassembling the major components containing precious metals told us that although they had a recovery plan, they were waiting for guidance from the Department on how to dispose of the excess metals. The Office of Contractor Management and Administration was not aware that precious metals were or potentially could be recovered from disassembled nuclear weapons. As a consequence, this office did not develop a plan for disposal of excess precious metals recovered from nuclear weapons because program officials had not communicated to them any information regarding the recovery of excess precious metals from the Dismantlement Program.

No Effective Means to Dispose of Excess

Despite the excess, the Department had not developed an effective mechanism for the Departmental pool to dispose of excess precious metals on hand or the additional excess that could be recovered from disassembled nuclear weapons. Under existing Departmental regulations, precious metals were to be recycled within the Department. However, with the cessation of weapons production, demand for precious metals declined and much of the on-hand inventory was excess to programmatic need. In addition, weapons scheduled for disassembly contained substantial quantities of recoverable precious metals. Recovering these precious metals would greatly increase the Department's inventory. Despite these conditions, officials from the Offices of Contractor Management and Administration and Headquarters Accounting told us that the Department did not have a mechanism for disposing of the excess to other Government agencies or the open market.

The lack of an effective mechanism for the pool to dispose of excess precious metals was highlighted by the problems encountered by a using organization attempting to dispose of about $5.5 million of excess. When a weapons system was terminated, the using organization attempted to return the precious metals purchased for production to the Departmental pool as required by the existing property management regulations. However, the pool could not accept this amount because of budget limitations. In response to the using organization's request, the Office of Contractor Management and Administration granted a waiver from the requirement to return the metals to the Departmental pool but advised the using organization that the Department's Reportable Excess Automated Property System should be used to make the disposal. In conjunction with the cognizant operations office, the using organization determined that this approach was not effective. Rather than follow the Departmental procedures prescribed by the Office of Contractor Management and Administration, the using organization determined that it would be more timely and cost effective to sell the excess on the open market. The Chief Financial Officer for the cognizant operations office agreed with the using organization and subsequently authorized the open market sale of their on-hand excess.

PRIORITIES AFFORDED PRECIOUS METALS MANAGEMENT

Weaknesses in precious metals administration occurred because Department and contractor management did not consider precious metals management a high priority. Officials from several Departmental elements told us that precious metals were not a high priority because of the relatively small dollar value of precious metals inventory on the Department's balance sheet. Officials from the Office of Contractor Management and Administration, Office of Headquarters Accounting, and the Office of Military Applications also stated that inaction was due to limited resources such as money and staff, the small value of precious metals in relation to the total value of the Department's personal property, and limited guidance.

Officials from the operations offices confirmed that the Department did not consider the management of precious metals to be an important issue by stating that the Department had not addressed problems they had identified relating to the disposition of excess precious metals. For example, officials from using organizations at one operations office cited problems with the current operation of the Department's precious metals pool which hindered disposition and acquisition of precious metals--very slow processing times for accepting scrap metal and regularly out-of-stock precious metals with a high demand, such as gold.

The manager of the Department's precious metals pool was aware of these problems and pointed them out to Oak Ridge Operations Office officials in reports on the Precious Metals Pool and Recovery Program for Fiscal Years 1992, 1993, and 1994. In these reports, the manager identified problems associated with the budget limit; insufficient quantities of the most requested metals due to contractors failing to return excess; and the fact that some contractors did not use the Department's authorized pool. The Oak Ridge Operations Office forwarded the 1992 report to the Office of Contractor Management and Administration and continued to inform Headquarters officials of the pool's operating problems in 1993 and 1994. In response to these reports, officials from the Office of Contractor Management and Administration and Oak Ridge Operations Office discussed closing the Department's pool, and on two occasions, issued letters to that effect. However, no action was taken to correct the cited problems until November 1994 when the Office of Contractor Management and Administration established a task force to identify the extent of excess precious metals and determine policy and procedural changes necessary to make precious metals management more effective.

Noncompliance With Existing Departmental Regulations

As a consequence of the low priority given to the management of precious metals, Departmental managers did not ensure compliance with existing property management regulations. For example, unauthorized precious metals pools were permitted to exist; reviews for excess precious metals were not performed; validation of information submitted to the Financial Information System was inadequate; and semiannual physical inventories were not conducted.

Unauthorized Precious Metals Pools. The audit disclosed that Departmental officials allowed unauthorized precious metals pools to exist even though their operation was in violation of property management regulations. Since 1984, the Department's Property Management Regulation 109-27.5306 required operation of a centralized precious metals pool. However, three unauthorized pools were in operation at the time of our review. These unauthorized pools were operated by contractors under the cognizance of Albuquerque, Oak Ridge, and Oakland Operations Offices. The precious metals contained in these pools were valued at about $2.3 million or 4.5 percent of the $52 million of on-hand precious metals.

Additionally, using organizations purchased higher priced precious metals on the open market because these organizations were not aware of the type and quantity of precious metals existing in the unauthorized pools. For example, during Fiscal Year 1994, an using organization under the cognizance of the Albuquerque Operations Office made purchases of precious metals on the open market for $100,787. These same metals were available in an unauthorized precious metals pool for only $21,837. Similarly, another using organization under the cognizance of Albuquerque Operations Office purchased precious metals on the open market for $311,923 that were available in an unauthorized pool for only $62,221.

Nonperformance of Annual Reviews. Excess precious metals were also allowed to accumulate because some Departmental organizations and contractors did not ensure that annual reviews for excess precious metals were performed. Based on the 1981 Office of Inspector General report, the Department revised the property management regulations and required precious metals control officers to annually review precious metals holdings to determine excess. We identified six organizations who had not performed an annual review in Fiscal Year 1994. For example, at one site, we were told that an annual review for excess precious metals had never been performed. During September 1994, this organization conducted a review and classified about $2.9 million of its $9.4 million precious metals inventory as excess. Another organization reported that due to lack of funding, the precious metals control officer position had been vacant since October 1, 1993. This organization subsequently conducted a review of its precious metals inventory and concluded that practically all of the inventory was excess to programmatic need.

Inaccurate Data. Departmental organizations were also not validating the accuracy of the data reported to the Department's Financial Information System. The Department's property management regulations require that "the dollar value of physical inventory results shall be reconciled with the financial records." However, the precious metals inventory values reported in the Department's Financial Information System did not, in several cases, agree with onsite inventories. For example, Headquarters Procurement Operations incorrectly reported that they were responsible for precious metals with a historic value of $394,594, when in fact they were only responsible for precious metals valued at $48,741. This occurred because Headquarters Procurement Operations did not take into account the precious metals that had been expended over the years. At Fernald, management did not report having any precious metals on hand, when in fact they had metals with a current value of $558,204. Similar problems were found in financial data reported for nonmanagement and operating prime contractors.

Semiannual Physical Inventories. Property management regulations also required Departmental organizations and their management and operating contractors to conduct semiannual physical inventories. The inventories were to be witnessed by a precious metals control officer. However, one operations office did not ensure that semiannual physical inventories were conducted. For example, one contractor for the operations office did not conduct semiannual physical inventories of precious metals loaned to five of its offsite subcontractors. Precious metals had been loaned to one of these subcontractors for over 15 years. In another case, a nonmanagement and operating prime contractor was only conducting physical inventories of precious metals every 5 years.

Procedures Not Amended to Reflect Mission Change

The Department did not amend property management regulations to address the decreased demand for precious metals caused by the cessation of weapons production. Specifically, the Department did not change the operation of the Departmental precious metals pool from a recycle function to both a recycle and disposal function. Also, the property management regulations did not provide for policies and procedures that addressed the disposal of precious metals to other Government agencies or on the open market. Finally, the Department did not develop policies and procedures to clarify the definition of current and foreseeable need for the retention of precious metals.

Operation of the Precious Metals Pool. Budgetary and regulatory constraints had a substantial affect on the ability of the authorized pool to process precious metals. As mentioned previously, the authorized pool had a budget limit of about $1.5 million. This limit was sufficient prior to the cessation of weapons production. However, after the mission change, the demand for precious metals decreased and the amount of excess metals that could be returned to the Departmental pool increased substantially. Nonetheless, Departmental officials did not address the fiscal constraints that prevented precious metals from being returned to the pool. With the pool unable to accept excess, using organizations had no alternative method of disposing of unneeded metals.

Disposal of Precious Metals. Departmental officials also did not amend the property management regulations to provide for an effective mechanism for the authorized pool to dispose of unneeded precious metals to other Government agencies or on the open market. Departmental policies and procedures only provided guidance for recycling excess precious metals within the Department of Energy. Officials from the Offices of Contractor Management and Administration, Defense Programs, and Headquarters Accounting indicated that the current property management regulations did not contain specific procedures for the disposal of excess precious metals to other Government agencies or the open market.

Current and Foreseeable Need. Another factor contributing to the excess was that property management officials did not clearly define current and foreseeable need in the Department's property management regulations. This permitted managers at each using organization to interpret what constitutes current and foreseeable need differently. For example, several program managers justified retaining precious metals for foreseeable need based on the belief they would use them in the performance of contracts not yet approved. Conversely, other property management officials believed that precious metals were excess unless their retention was justified by specific programmatic need. Further, property management officials at several sites told us they did not question program managers' justifications for retaining precious metals due to insufficient knowledge of program needs.

DISPOSITION OF EXCESS PRECIOUS METALS

Substantial savings can be achieved through the elimination of excess precious metals from the Department's inventory. However, the Department needs to develop procedures which will allow for an effective and efficient disposition mechanism. The Department has determined that at least $10.3 million worth of precious metals on hand is in excess of programmatic need. The authorized precious metals pool or using organizations could sell the on-hand excess precious metals with the proceeds being used to offset operating costs of user organizations or returned to the U.S. Treasury.

Substantially greater savings could be achieved through the disposition of precious metals recovered from disassembled weapons. Current plans simply call for the recovery of these metals. This course of action will only add to the Department's excess and increase inventory control and accountability problems. Through the development of a long-range disposition plan, we estimate that the Department could potentially recover and dispose of about $36 million worth of precious metals from disassembled weapons.

PART III

MANAGEMENT AND AUDITOR COMMENTS

The Office of Contractor Management and Administration agreed with the finding and recommendations. A summary of management's comments and our replies follows.

Finding. Administration of Precious Metals

We recommend that the Deputy Assistant Secretary, Procurement and Assistance Management, in coordination with the Associate Deputy Secretary for Field Management, place greater emphasis on the management of precious metals by:

Recommendation 1

Directing cognizant Departmental offices to ensure compliance with existing Departmental property management regulations. More specifically, these organizations should:

a. discontinue operation of unauthorized precious metals pools;

b. ensure that using organizations conduct required annual reviews to determine excess quantities of precious metals; and

c. ensure that the using organizations are providing accurate, current, and complete information to the Department's Financial Information System.

Management Comments. Management concurred adding that a memorandum will be issued to all Departmental field organizations, area offices, and contractors requiring the immediate dissolution of all unauthorized precious metals pools, reemphasizing the mandatory performance of annual reviews determining excess amounts of metals while requiring all excess metals to be immediately returned to the Departmental precious metals pool, and asking that all information provided to the Financial Information System be current, accurate, and complete.

Auditor Comments. Management's actions are responsive to our recommendation.

Recommendation 2

Revising the policies and procedures for the management of precious metals that reflect the current mission of the Department. Specifically, the Department needs to:

a. ensure that the Department's centralized precious metals pool is able to accept and process excess precious metals identified by using organizations;

b. provide an effective mechanism for the centralized Departmental precious metals pool to dispose of excess precious metals; and

c. define current and foreseeable need for precious metals in the property management regulations.

Management Comments. Management concurred with recommendation 2.a. by stating that the Department was currently addressing the problems associated with the ability of the Department's precious metals pool to accept and process excess precious metals. Once decisions are made on how best to operate the Departmental pool, a memorandum will be sent out to all field organizations announcing any related changes and reiterating the requirement to use the Departmental pool.

For Recommendation 2.b., management stated that the Federal Property Management Regulations (FPMR) provide a process for disposing of excess personal property, including precious metals, to other Federal agencies.

Further discussions with the Office of Contractor Management and Administration regarding the disposal issue resulted in additional comments. Management explained that the Department's precious metals pool was originally set up to recycle metals within the Department while retaining a minimal supply of excess precious metals. The pool has focused on recycling of excess metals because historically there has been a continuing need for them within the Department. Recent mission changes within the Department have created an abundance of excess precious metals in need of disposition. The requirement for the return of all excess precious metals to the pool for recycling or disposition will be reemphasized.

Management indicated that the reemphasis would consist of the following actions. Management would revise the Department's property management regulation to read, "The purpose of the precious metals pool is to recycle DOE-owned precious metals and to dispose of DOE-owned precious metals that are excess to the needs of the Department. When the precious metals pool is operational, all excess metals must be returned to the pool. If the pool, however, is not functional then such metals are to be disposed of through the normal excess process." In addition, management would issue a letter to the Oak Ridge Operations Office requiring that the precious metals pool procedures reflect the excess disposal function.

Concluding, management pointed out that all proposed actions by their office in response to the audit report's recommendations depend upon the future of the precious metals pool. Management is presently working to resolve the identified problems with the operation of the precious metals pool so that its existence or closure will not be an issue in the future. Some actions that are being considered to rectify the pools operational problems include continuing a cash basis operation with sufficient funding, discontinuing the cash basis operation and going to a nonfunded operation, or disbanding the pool operation altogether. Whichever action is ultimately chosen will determine how excess precious metals are recycled and disposed of within the Department.

For Recommendation 2.c., management did not believe that the task for defining the Department's current and foreseeable need for precious metals belongs in the personal property regulatory process. This responsibility lies with the various Departmental programs. However, management proposed revising the personal property management regulations to include, "All excess precious metals must be returned to DOE's precious metals pool. The pool is entirely dependent on metal returns; therefore, metal inventories should be maintained on an as-needed basis, and any excess metals must be returned to the pool for recycling."

Auditor Comments. Management's planned actions are considered responsive to our recommendations. However, management suggests in their comments they are considering discontinuing operation of the Departmental pool. Based on our audit work, it appears that continued operation of a centralized precious metals pool is in the best interest of the Department at this time. Continued operation of the centralized precious metals pool, with implementation of our recommendations, will improve control and accountability over these valuable assets as well as providing for more effective inventory management. Centralized control and accountability protects against loss, theft, and unnecessary purchases while reducing refining and administrative costs through elimination of redundant management activities. Giving the pool manager authority to dispose of unneeded excess precious metals on the open market provides for more effective inventory management.

The Department's property management regulation requires using organizations to annually prepare forecasts of their precious metals needs. Using these forecasts along with the authority to dispose of unneeded excess, the pool manager could establish and maintain an optimum mix of the most used precious metals while selling those metals no longer needed by the Department to outside organizations. Therefore, management should strongly support continued operation of the Departmental pool at this time.

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