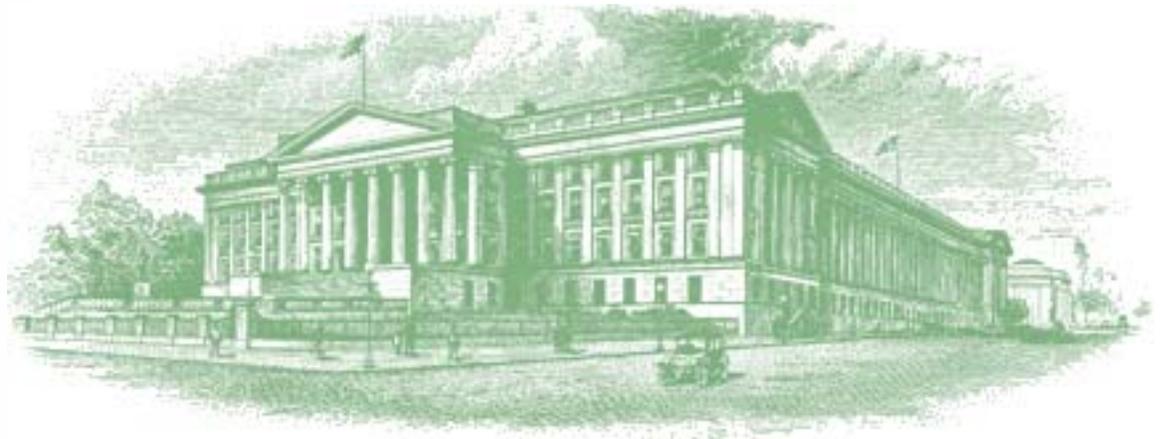




# Audit Report



OIG-05-002 (Interim Report)

MANUFACTURING OPERATIONS: Mint's Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Actions to Complete

October 29, 2004

Office of  
Inspector General

Department of the Treasury



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## Abbreviations

ATO	Agency Tender Official
BAU	Blanking, Annealing, and Upsetting
Bidder	Potential Contractors/Offerors
Circular	OMB Circular N. A-76 (Revised)
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
CSG	Competitive Sourcing Group
CSO	Competitive Sourcing Official
FAR	Federal Acquisition Regulation
GFE	Government Furnished Equipment
GFP	Government Furnished Property
Mint	United States Mint
MEO	Most Efficient Organization
OIG	Office of Inspector General
OMB	Office of Management and Budget
P.L.	Public Law
PWS	Performance Work Statement
QASP	Quality Assurance Surveillance Plan
SOW	Statement of Work
TEs	Technical Exhibits

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*The Department of the Treasury  
Office of Inspector General*

October 29, 2004

Henrietta Holsman Fore  
Director  
United States Mint

Office of Management and Budget (OMB) Circular No. A-76 (Revised) [Circular], *Performance of Commercial Activities*, which was revised May 29, 2003, reiterates the longstanding policy of the federal government to rely on the private sector for needed commercial services. In general, the Circular requires that federal agencies identify activities performed by government personnel as either commercial<sup>1</sup> or inherently governmental.<sup>2</sup> Agencies are then to use a “streamlined” or “standard” competition to determine if government personnel should perform a commercial activity. On October 23, 2003, the United States Mint (Mint) issued a *Public Announcement of OMB Circular A-76 Standard Competition Study on United States Mint Preparation of Ready-to-Coin Planchets* involving the manufacturing processes of blanking, annealing, and upsetting (BAU) of coin blanks. Under the Circular a standard competition study is to be completed and a “performance decision” made within 12 months. Therefore, the BAU competition study performance decision whether or not to contract out these manufacturing processes to the private sector or continue performing them with Mint personnel was due by October 23, 2004.

The House Conference Report (H.R. 108-401) for the Consolidated Appropriations Act, 2004 [Public Law (P.L.)108-199], directed our

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<sup>1</sup> A commercial activity is a recurring service that could be performed by the private sector.

<sup>2</sup> An inherently governmental activity is so intimately related to the public interest as to mandate performance by government personnel.

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office to perform a study on the potential and cost-effectiveness of expanded use of coin blanks in the production of circulating coins and submit a report on our study to the House and Senate Committees on Appropriations by April 1, 2004. In letters dated March 23, 2004, we informed the Congress that since the Mint had already publicly announced the BAU competition study, the study as described in the Conference Report could not be performed. However, we advised that we had initiated an audit to determine whether the Mint was conducting the BAU competition study in accordance with OMB requirements and Mint policies, and that we expected to complete this audit by October 31, 2004.

As discussed in this Interim Audit Report, the Mint has not met certain critical intermediate milestones it established for the BAU competition and did not complete the study in October 2004. We also noted deficiencies in other aspects of the Mint's BAU competitive study that require corrective action as the study progresses. We are therefore issuing this report to provide Mint management, the Department of the Treasury Competitive Sourcing Official (CSO), and the Congress with our audit results to date and recommendations to address these matters. We plan to continue our audit of the Mint's BAU competition study and will issue additional interim reports as appropriate and a final report after the study concludes. The findings in this report are based on our work performed from February 2004 to October 2004 at the Mint's headquarters in Washington, D.C., and Philadelphia Mint production facility. A more detailed description of our objectives, scope, and methodology is provided in Appendix 1.

Pursuant to H.R. 108-401, we will be providing copies of this Interim Audit Report to the House and Senate Committees on Appropriations as well as to the other Congressional oversight committees for the Department of the Treasury listed in Appendix 6.

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## Results in Brief

We found that (1) the Mint missed certain critical intermediate steps and milestone dates for completing the BAU competition study and accordingly, did not complete the study within the 12-month timeframe required by the Circular; (2) draft performance work statements (PWS) prepared by the Mint included inconsistent BAU manufacturing specifications and inspection criteria; (3) the Mint did not prepare the required justification for its decisions regarding Government Furnished Property (GFP) to be offered to potential contractors/offers (bidders); and (4) potential conflicts of interest by Mint officials and staff involved in the Mint's A-76 process existed.

We are making five recommendations in this report. Specifically, the Mint should (1) inform the Assistant Secretary for Management and Chief Financial Officer, the Department's CSO, that the BAU competition study was not completed within 12 months; (2) establish achievable intermediate steps and milestones for the study going forward; (3) ensure that manufacturing and inspection criteria in the PWS are consistent; (4) determine, and appropriately justify, whether government furnished property will be offered in the PWS; and (5) assign responsibilities for competitive studies and annual inventories of inherently governmental and commercial activities consistent with the Circular's requirements.

In the Mint's October 27, 2004, written response to this report, management agreed with the findings and recommendations and provided its corrective actions taken and planned to implement the recommendations. The full text of the Mint's response is provided as Appendix 4.

## Background

The Circular establishes federal policy for the competition of commercial activities. The Circular assigns responsibilities to

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specific government personnel and identifies additional requirements such as the requirements in the Federal Acquisition Regulation (FAR) that are applicable to a competition conducted under the Circular. Some specific requirements are that agencies:

- Inventory all activities performed by government personnel as either commercial or inherently governmental;
- Perform a Public-Private Competition to determine if government personnel should perform a commercial activity;
- Apply the FAR, in conjunction with this Circular, for streamlined and standard competitions and comply with procurement integrity, ethics, and standards of conduct rules;
- Designate, in writing, an assistant secretary or equivalent level official with responsibility for implementing this Circular, hereafter referred to as the CSO. For the BAU competitive study, the CSO is the Assistant Secretary for Management and Chief Financial Officer of the Department of the Treasury. Except as otherwise provided by this circular, the CSO may delegate, in writing, specified responsibilities to senior-level officials in the agency or agency components; and
- Post on SHARE A-76 lessons learned and best practices resulting from a competition process.

Key personnel in the OMB A-76 process include:

- The Agency Tender Official (ATO) is an inherently governmental agency official with decision-making authority and responsible for the agency tender, leads the Most Efficient Organization (MEO), and represents the agency tender during source selection.

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- The CSO is an inherently governmental agency official responsible for the implementation of this circular within the agency.
  - The Contracting Officer (CO) is an inherently governmental agency official participating on the PWS team and is responsible for the issuance of the solicitation and the source selection evaluation methodology.
  - The MEO Team is a group of individuals, comprised of technical and functional experts, and formed to assist the ATO in developing the agency tender.
  - The PWS Team, led by a team leader, is responsible for developing the PWS, determining whether or not to offer GFP, assisting the CO with the solicitation, developing the quality assurance surveillance plan, and implementing the performance decision.

For the BAU competition study the Mint estimated that approximately \$771,800 has been obligated of which approximately \$535,600 has been expended as of October 25, 2004.<sup>3</sup> The Mint is using two contractors to support the PWS and MEO teams.<sup>4</sup> The portion of the contract award amounts allocated by the Mint to the BAU competition study is approximately \$349,400 of which \$113,200 has been paid to the contractors. The Mint estimated that its salaries and benefits, travel, and training costs totaled approximately \$422,400 for the BAU competition study.<sup>5</sup>

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<sup>3</sup> P.L. 108-199 requires federal agencies to annually report to the Congress on competitive sourcing activities, including incremental costs attributable to completed and in-process competition studies. The first report covering fiscal year 2004 is due December 31, 2004.

<sup>4</sup> Each contract and contractor supported two competition studies. One study was for the Power Industrial Truck and the other study was for the BAU. The Mint allocated 50 percent of the contract costs, obligated and expended, to each study in the above estimates.

<sup>5</sup> The Mint's estimated costs are unaudited and did not include all travel costs. We were informed that the travel costs for the Philadelphia Mint employees were not available at the time this report is issued.

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## Findings and Recommendations

### Finding 1      **The Mint Did Not Complete the BAU Competition Study in a Timely Manner**

Contrary to the Circular's requirements, the Mint did not meet the 12-month timeframe for completing the BAU competitive study. It missed certain critical intermediate milestones established for the study, particularly those related to developing an adequate PWS. Although the Mint could have requested CSO approval for a longer competition period before publicly announcing the competition, it did not do so nor demonstrate that a longer period was necessary.

The Circular requires that a standard competition not exceed 12 months from public announcement (start date) to performance decision (end date) unless the CSO grants a waiver. The CSO may grant a time limit waiver, in writing, allowing up to 18 months for the competition if the competition is particularly complex. The time limit waiver, however, is to be provided to OMB before the competition is publicly announced. Additionally, OMB must be notified by the CSO if the agency exceeds the time limit, including any approved extension.

The Mint developed a schedule, provided to our auditors in February 2004 and included as Appendix 2, that identified the key intermediate steps and milestone target dates that would provide for completion of the BAU competition study by September 10, 2004, or approximately 10½ months after the study was publicly announced. Although the schedule provided a cushion of 1½ months, significant slippage occurred with meeting intermediate steps and milestone dates. For example, the schedule provided for the following intermediate milestones and milestone target dates:

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Intermediate Milestones	Milestone Target Date
Post Final Draft PWS and Quality Assurance Surveillance Plan (QASP) on <i>FedBizOpps.gov</i> for comment	March 31, 2004
Final PWS and QASP complete	May 19, 2004
Mint issues Solicitation via <i>FedBizOpps.gov</i>	June 2, 2004
Receive Tenders from Providers	August 11, 2004
Complete Source Selection	September 6, 2004
Public Announcement of Award	September 10, 2004

With respect to the PWS, the Mint issued the draft PWS for comment on April 12, 2004, and a draft solicitation<sup>6</sup> including a revised draft PWS on August 14, 2004, 4 months late and after the milestone date initially established for issuing the solicitation for tenders. As discussed in Finding 2, both draft PWS documents were deficient. At September 29, 2004, the Mint had also not made fundamental decisions concerning GFP to be offered in the PWS. According to an experienced contractor hired by the Mint to assist with the process outlined in the Circular, the decision to offer or not offer GFP will likely now add 30 to 60 more days to the entire process.

Mint personnel told our auditors that they considered the BAU competition to be complex. However, the Mint did not seek a time limit waiver from the CSO as allowed by the Circular. By virtue of establishing a schedule that was intended to complete the competition in 10½ months, management has not demonstrated

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<sup>6</sup> For the remainder of the report we will refer to this document as a draft PWS.

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that this study was unusually complex and warranted a longer period for its completion.

### **Recommendations**

The Mint Director should:

1. Formally notify the Competitive Sourcing Official (Assistant Secretary for Management and Chief Financial Officer) of the delay in completing the BAU competition.

Management Response The Mint agrees with this recommendation. The Mint is currently drafting a notification, which will be forwarded to the CSO no later than November 12, 2004.

OIG Comment The actions proposed by the Mint satisfy the intent of our recommendation.

2. Develop an achievable schedule for completing the BAU competitive study going forward. Adherence to the schedule should be closely monitored by senior Mint management and timely action taken to address any slippages.

Management Response The Mint agrees with this recommendation. The Mint is currently drafting a new schedule that they believe is achievable. The Mint stated that the new schedule will be forwarded to the CSO no later than November 12, 2004.

OIG Comment The actions proposed by the Mint satisfy the intent of our recommendation.

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## Finding 2

### Draft Performance Work Statements for the Competition Study Were Deficient

The draft PWSs published by the Mint included different specifications for the manufacturing of the coin blanks than the specifications for inspection/acceptance of the blanks. If not corrected in the final solicitation, this deficiency could discourage potential bidders in that a significant number of coin blanks produced would be subject to rejection by the Mint.

The PWS is a document defining specific results or outcomes derived from the commercial activity and providing the requirements, performance measures, standards, workload, conditions of performance, and timeframes. The PWS should state "What is to be performed" but not include detailed procedures that dictate how the work is to be accomplished. Finally, the PWS should ensure completeness by:

- Identifying and defining all products or tasks,
- Identifying completion criteria for each product or task,
- Identifying any relationships between products or tasks,
- Excluding unnecessary tasks,
- Identifying the flow of the tasks, and
- Exclude how-to requirements.

On April 12, 2004, the Mint posted its draft PWS for the BAU competition study on *FedBizOpps.gov* for comments and questions. On August 14, 2004, the Mint posted its draft solicitation, which included a revised draft PWS, on *FedBizOpps.gov*. The April 2004 draft PWS contained the following Technical Exhibits (TEs) which provide detailed and technical information in support of the production of the coin blanks: TE-01, TE-02, TE-03, TE-04, TE-05, TE-06, TE-07, and TE-08. The August 2004 draft PWS included the same TEs, except TE-07, as were published in the April 2004 draft PWS, plus two additional ones -- TE-09 and TE-10. The TEs provide the following information:

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TEs<sup>7</sup> included in the April 2004 and August 2004 draft PWSs

- TE-01, *Workload – Blanks Produced*, is the number of blanks produced each month and production forecasts by fiscal year.
- TE-02, *Blank Specifications*, is the individual blank denominations' production dimensions and specifications.
- TE-03, *Coils Received*, is the monthly historical delivery quantities of the strip material that is the raw material for blank production for Calendar Year 2003.
- TE-04, *Historical Maintenance Repair*, is a list of problems and locations for equipment that the Mint is offering as Government Furnished Equipment (GFE).
- TE-05, *Maintenance Problem Code Explanation*, is the code descriptions for maintenance problems with GFE.
- TE-06, *Government Furnished Equipment*, is a listing of the equipment offered by the Mint as GFE.
- TE-07, *Performance Requirements Summary*, is a summary of the PWS requirements; performance standards; maximum allowable defect rate per sample; and method of surveillance, which is either inspection or sampling.
- TE-08, *Inspection and Acceptance*, is the criteria the Mint uses to inspect blanks to determine whether they are acceptable or unacceptable for use in the production of coins.

Additional TEs included in the August 2004 draft PWS

- TE-09, *Authorized Coin Carriers*, is a listing of the carriers approved to transport blanks from the manufacturers' facilities and the Mint's production facilities.
- TE-10, *Incoming Coil Inspection Specifications*, is the Mint's specifications used to determine whether the coils received from the strip manufacturing contactors are acceptable or unacceptable for use in the production of blanks.

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<sup>7</sup> The names of the TEs varied between the Table of Contents, the label on the TE and between the draft PWSs. For TE-01 to TE-08 we used the title in the April draft PWS Table of Contents and for TE-09 and TE-10 we used the labels on the TEs.

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We reviewed the April 2004 draft PWS and noted two weaknesses. The first weakness concerned the use in several places in the PWS of the terms 'adequate' and 'satisfactory' as requirements or performance standards. These terms were not defined in the draft PWS and the terms were used to measure different subject matters.

A second weakness concerned differences between various attributes from the Blank Specifications contained in TE-02 (manufacturing specifications) and the inspection criteria for planchet blanks contained in TE-08. These TEs contained the manufacturing specifications and inspection criteria, respectively, for five coin denominations – nickel, dime, quarter, half, and dollar. The TEs provide the dimensional tolerances in inches and millimeters for each coin denomination in four categories – strip gauge (blanking gauge), blank cut diameter (blanking diameter), upset diameter (rimming or upsetting diameter), and upset edge thickness (rimming or upsetting thickness).

We compared the Mint's 20 manufacturing specifications with its inspection criteria for the five coin denominations. For 7 of the 20 specifications (35 percent), the inspection criteria for coin/blank acceptance were different. For two coin denominations (nickels and quarters), there was no overlap between the manufacturing specifications and inspection criteria, which would effectively result in rejection of all coins produced of those denominations. For two other coin denominations (dime and dollar), the discrepancies were not as significant but could still result in some of the coins produced according to the manufacturing specifications to be rejected. These discrepancies are identified in the following table:

Table 1: Manufacturing Specification/Inspection Criteria Discrepancies in April 2004 Draft PWS		
	Manufacturing Specification in TE-02	Inspection Criteria in TE-08
<b>Coin- Nickel</b>		
Blank Diameter	21.220-21.300 mm *	21.457-21.467 mm *
Upset Diameter	20.98-21.08 mm	20.98-21.17 mm
Upset Thickness	1.72-1.88 mm	1.73-1.88 mm
<b>Coin- Dime</b>		
Upset Thickness	1.19-1.35 mm	1.19-1.36 mm
<b>Coin- Quarter</b>		
Blank Diameter	24.22-24.30 mm	24.220-24.396 mm
Upset Diameter	23.67-23.77 mm*	23.89-24.00 mm*
<b>Coin- Dollar</b>		
Blank Gauge	1.587-1.664 mm	1.586-1.663 mm
* If produced according to the manufacturing specifications, the inspection criteria would require all coins of the denomination to be rejected. All units of measure are in millimeters (mm).		

On May 21, 2004, we provided our written comments and discussed the weaknesses with the April 2004 draft PWS with the Mint Contracting Officer's Technical Representative (COTR) and CO responsible for the PWS.

We also reviewed the Mint's August 2004 draft PWS, which included the seven TEs in the April 2004 draft PWS (TE-07 was not included), and two additional TEs (TE-09 and TE-10). TE-10 identified the inspection criteria for the blank strip fabrication (the "input" for the coin blank production process). We believe this information was critical to the BAU competition study. A Mint official said that the Mint did not release TE-10 with the first draft of the PWS because originally the PWS team did not think that they were going to ask the contractor to re-inspect what is government supplied material after it was inspected at the manufacturers' locations and shipped. Since then, the PWS team decided to ask the contractor to perform an inspection of the incoming strip material, basically to act as a quality control agent for the government; therefore, TE-10 was included in the August draft PWS.

As with the April 2004 draft PWS, we compared the Blank Specifications contained in TE-02 with the Inspection Criteria contained in TE-08 in the August 2004 draft PWS. For 9 of the 50 manufacturing specifications, including the 7 specifications with discrepancies in the April 2004 draft PWS that we brought to the Mint's attention earlier, the inspection criteria was different, as shown in the following table:

Table 2: Manufacturing Specification/Inspection Criteria Discrepancies in August 2004 Draft PWS		
	Manufacturing Specification in TE-02	TE-08 Inspection Criteria In TE-08
<b>Coin- Nickel</b>		
Cut Diameter	21.220-21.300 mm*	21.457-21.467 mm*
Upset Diameter	20.98-21.08 mm	20.98-21.17 mm
Upset Thickness	1.72-1.88 mm	1.73-1.88 mm
Cut Diameter	.8354-.8386 inches	.835-.839 inches
<b>Coin- Dime</b>		
Upset Thickness	1.19-1.35 mm	1.19-1.36 mm
<b>Coin- Quarter</b>		
Cut Diameter	24.22-24.30 mm	24.220-24.396 mm
Upset Diameter	23.67-23.77 mm	23.89-24.00 mm
Upset Diameter	.932-.936 inches*	.937-.941 inches*
<b>Coin- Dollar</b>		
Thickness (Gauge)	1.587-1.664 mm	1.586-1.663 mm
* If produced according to the manufacturing specifications, the inspection criteria would require all coins to be rejected. All units of measure are in millimeters (mm) or inches.		

Next we compared the Blank Specifications contained in TE-02 with the Fabrication Specifications for Strip materials contained in TE-10. We identified 176 technical specification attributes contained in both TE-02 and TE-10 and determined that for 70 attributes (nearly 40 percent), differences existed between specifications. These discrepancies are presented in Appendix 3.

On August 31, 2004, we discussed these discrepancies with the Mint CO, COTR, and Team Leader responsible for the PWS. When

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we asked why the 7 discrepancies that we initially identified were not corrected in the August 2004 draft PWS, we were informed that this task was delegated to the field and the COTR believed that the discrepancies were corrected. During this meeting, the Mint officials also informed us that TE-02 contained the blank specifications, which are maintained by the Mint headquarters. However, we were told that Denver and Philadelphia Mint personnel did not always agree on these specifications or the inspection criteria contained in TE-08.

The nature and extent of the discrepancies noted in the two draft PWSs are indicative of a lack of appropriate quality control or supervisory review of these documents by the Mint before they are published for public comment.

### **Recommendation**

The Mint Director should ensure that:

1. The BAU competitive study PWS provides for consistent manufacturing specifications and inspection criteria. In this regard, appropriate quality controls and supervisory review of the PWS should be put in place before future drafts of the PWS and the final solicitation are published.

Management Response The Mint agrees with this recommendation. The Mint's PWS Team has incorporated the necessary corrections into the PWS. In addition, to ensure that future draft of the PWS and solicitation are of the highest quality possible, the Mint intends to institute an additional supervisory review process prior to posting the complete solicitation package. The additional supervisory review process will be incorporated into the Mint's procedures with standard operating procedures that will be implemented by November 30, 2004.

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OIG Comment The actions proposed by the Mint satisfy the intent of our recommendation.

**Finding 3                    The Mint’s Decisions to Offer or Not Offer GFP Were Not Justified in Writing or Approved by the CSO**

The April 2004 and August 2004 drafts of the PWS stated that the Mint would not be furnishing any facilities to a non-Government service provider. TE-06 of the draft PWSs identified certain equipment that the Mint planned to make available to potential bidders for their use in producing the required blanks. The equipment included blanking presses, annealing furnaces, washers, dryers, upsetting mills, and associated equipment.

The Circular requires that an agency determination whether to provide or not to provide GFP be justified in writing and approved by the CSO. In addition to the Circular’s requirement, the Mint’s Draft Directive MD 2A-2 requires that the CSO approve in writing prior to the official announcement of a study, the PWS Team Lead’s justification to provide or not provide GFP for the study.

According to Mint officials, a written justification was not prepared to support the decisions regarding facilities and equipment to be offered or not offered. Accordingly, the Mint also did not obtain the CSO’s written approval of these decisions. By not preparing the required justification and subjecting it to CSO review, the Mint has not ensured that these decisions are in the best interest of the Government.

**Recommendation**

The Mint Director should ensure that:

1. The required justification is prepared and the determination to provide or not provide Government Furnished Property is approved by the Assistant Secretary of Management and Chief

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Financial Officer. This should be accomplished before any future drafts of the PWS and the final solicitation are published.

Management Response The Mint agrees with this recommendation. Before any draft posting or the issuance of the final solicitation, the Mint intends to prepare a justification regarding the Mint's decision on GFP, and obtain approval of the Mint's decision by the CSO. The justification to provide or not provide GFP will be forwarded to the CSO no later than November 12, 2004.

OIG Comment The actions proposed by the Mint satisfy the intent of our recommendation.

**Finding 4                      Potential Conflicts of Interest by Mint Officials and Staff Involved in the Mint's A-76 Process Need to be Addressed**

As important controls to maintain the integrity of competitive studies, the Circular requires (1) a separation, or "firewall," between employees assigned to develop the PWS and employees assigned to develop the agency tender and (2) the assignment of certain Circular responsibilities only to employees in positions that are classified as inherently governmental. We noted a situation with respect to the BAU competitive study where an employee was assigned roles that were inconsistent with these requirements. We also noted that the Mint's directive, which was still in draft at the time of our review, delegated responsibilities to the Associate Director/Chief Financial Officer to approve the Mint's annual inventories categorizing activities performed by Mint personnel as either *inherently governmental* or *commercial* and to act on challenges to that inventory; the Circular requires that such responsibilities be separated.

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These conditions are described below:

- At the time of our review the Acting Chief of the Mint's Competitive Sourcing Group (CSG) served dual roles. In his regular position, he served as the COTR for the preparation of the PWS and was intricately involved in the technical advice that goes into writing and editing the PWS. In his acting position, he served as the approving official for the competitive sourcing process with oversight authority for both the PWS and MEO teams. Maintaining a separation of these responsibilities is important to avoid an appearance of bias and as a control to ensure, for example, that cost estimates developed by the PWS team are not shared inadvertently or otherwise with the MEO team.
- The Circular requires that agencies implement a process allowing for challenges to the inventories of inherently governmental and commercial activities. The *Inventory Challenge Authority* reviews and responds to challenges of the agency's inventory decisions. This authority is to be assigned to an agency official at the same or higher level than the individual who prepared the inventory. The *Inventory Appeal Authority* reviews and responds to appeals of inventory challenge decisions made by the Inventory Challenge Authority. The Inventory Appeal Authority is to be assigned to an agency official who is independent and at a higher level in the agency than the Inventory Challenge Authority.

In October 2003, the Mint issued a draft directive to establish policy and assigned responsibility for implementing the Circular.<sup>8</sup> The draft directive did not specifically refer to an inventory challenge and appeal process in the same terms as the Circular. However, the draft directive assigned to the Associate Director/ Chief Financial Officer the responsibilities to: (1) approve the Mint's final annual inventories prior to submission to the

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<sup>8</sup> Draft Directive MD 2A-2, Chapter 2 – General Management, *Performance of Commercial Activities*.

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Department, (2) review challenges to the inventory classifications of certain functions as inherently governmental or commercial, and (3) decide the outcome of protests regarding competitive sourcing decisions. By assigning these functions to the same official, the Mint has not ensured that challenges and appeals to annual inventories will be considered in an independent and unbiased manner.

We brought the above matters to management's attention during our audit. Mint officials stated that MD 2A-2 was still in draft but corrective action would be taken concerning the assignment of inventory challenge and appeal authorities. The Mint, however, has not provided our auditors with details of the planned corrective action.

### **Recommendation**

1. The Mint Director should assign responsibilities for competitive studies and annual inventories of inherently governmental and commercial activities consistent with the Circular's requirements. Specifically, the Mint needs to ensure that: (1) personnel are not assigned to acting positions that may involve, or appear to involve, a conflict of interest with their regular responsibilities; and (2) inventory challenge and inventory appeal authorities are assigned to separate individuals at an appropriate management level.

Management Response The Mint agrees with this recommendation. (1) The Mint stated that the Acting Assistant Director for Competitive Sourcing became ill. As a result, the Mint installed the PWS Team Lead in that position. The Mint recognized that this situation could cause a conflict of interest, but took steps to avoid a conflict of interest as stated in their management comments in Appendix 4. The Mint intends to eliminate any perceived conflicts of interest and ensure appropriate firewalls between PWS and MEO Teams were in place by separation of duties. The Mint intends to develop

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comprehensive standard operation procedures to address and enforce firewall issues and incorporate no later than November 30, 2004.

(2) The Mint also responded that it would be designating the responsibilities for the Inventory Challenge Official and Inventory Appeals Official to different Mint managers by November 30, 2004.

OIG Comment The actions proposed by the Mint satisfy the intent of our recommendation.

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We appreciate the cooperation and courtesies extended to our staff. If you have any questions, please contact me at (202) 927-5904.

Thomas E. Byrnes  
Director, Procurement Audits

## **Objectives**

The Conference Report (H.R. 108-401) for the Consolidated Appropriations Act, 2004 (P. L. 108-199) required the Treasury Office of Inspector General (OIG) to study the Mint's use of pre-made blanks in the production of circulating coins. The study objectives are to determine whether the Mint followed OMB A-76 policy, Mint acquisition regulations, and sound business practices as they administer the competitive sourcing study.

In letters dated March 23, 2004, we informed the Congress that since the Mint had already publicly announced the OMB Circular A-76 BAU competition study, the study as described in the Conference Report could not be performed. However, we advised that we had initiated an audit with objectives to determine whether the Mint was conducting the BAU competition study in accordance with OMB requirements and Mint policies.

## **Scope**

We began our study in February 2004. The interim report covers the Mint's activities through October 25, 2004. Work continues on the Mint's continuing BAU A-76 activities. The results of this interim report will be included in the final report.

## **Methodology**

As part of the fieldwork completed to date, we have visited Mint facilities at their Washington, D.C. headquarters and the Mint manufacturing facility in Philadelphia, Pennsylvania. We interviewed key personnel involved in the A-76 Public Private competition, and reviewed contract file documentation and e-mail messages. We used the internet to find relevant reports and documents from the OMB, Government Accountability Office, and Mint websites. We also interviewed a key person from the support contractor hired to help Mint personnel conduct the A-76 competition. We also reviewed the Mint's timeline to determine

whether it is meeting OMB regulated time limits. We requested data concerning the cost of the BAU competitive study. The Mint provided us estimates of the costs; however, we have not audited these estimates because all costs were not available at the time of this report.

We are conducting our audit, and prepared this interim report, in accordance with generally accepted government auditing standards.

Appendix 2  
Detailed Competitive Sourcing Study Schedule for BAU

U.S. Mint Detailed Sourcing Study Schedule Comparison BAU Provided to OIG on 02/10/2004		
MILESTONE	TARGET DATE*	COMMENT**
Employee Meetings in Denver	<b>10/16-17/2003</b>	Employee meetings are necessary prior to formally announcing in FedBizOps under Circular A-76
Employee Meetings in Philadelphia	<b>10/22-23/2003</b>	
Study Announcement in FedBizOps	<b>10/23/2003</b>	<b>START DATE</b>
Data Collection in Philadelphia	<b>10/27-31/2003</b>	Data collection and interviews are to confirm the functions under study, number of FTE's affected by the study, and any capacity or equipment issues.
Data Collection in Denver	<b>11/03-07/2003</b>	
Received First Draft of PWS & QASP	<b>11/21/2003</b>	Initial draft submitted for review by the Mint PWS Team.
PWS Team completes review of Draft PWS and QASP	<b>12/19/2003</b>	2 weeks allowed for review.
Updated Draft PWS and QASP Received	<b>01/09/2004</b>	
PWS Team forwards revised Draft PWS and QASP to management	<b>01/16/2004</b>	
Draft PWS and QASP management review complete	02/13/2004	4 weeks allowed for review due to year end and holidays.
Receive Final Draft PWS and QASP	03/16/2004	1 week to update drafts.
MEO Support Solicitation	02/13/2004	Finalize issues with Statement of Work (SOW) & issue 2 wks.
MEO Support Award	03/26/2004	4 wks to respond to SOW and 2 wks for evaluations & select.
Post Final Draft PWS and QASP on FedBizOps for comment	03/31/2004	By working closely with PWS contractor and Mint's CO, the plan is to compress edit and incorporate Mint comments into PWS and QASP and post to FedBizOps reduced 2 weeks.
MEO Training	04/12/2004	Begin training 10 days after award
Receive industry/MEO comments on Posted Final Draft PWS and QASP	04/28/2004	4 weeks allowed for comments.
Final PWS and QASP complete	05/19/2004	3 weeks allotted to address comments in final PWS and QASP.
Mint issues Solicitation via FedBizOps	06/02/2004	Time allotted to complete final solicitation package reduced 3 weeks to 2 weeks. This assumes that CO has previously handled necessary tier reviews base on a preliminary package during January-February time frame.
Receive Tenders from Providers	08/11/2004	This reduces the open period from 15 weeks to 0 weeks. During the same period the ATO must conduct an independent review of the MEO's tender prior to the submission due date.
Complete Source Selection	09/06/2004	Reduces source selection time from 8 weeks to 5 weeks. It assumes clearly defined source selection evaluation criteria and the completeness of provider responses.
Public Announcement of Award	09/10/2004	<b>End Date</b>
*The dates in <b>bold</b> were actual dates at the time OIG received the document and the remainder of the dates were planned.		
** These comments were prepared by the Mint as part of its schedule.		

Appendix 3  
 Draft Solicitation Released August 14, 2004 Comparison of Cupronickel and  
 Clad Blank Specifications in TE-10 and TE-02

Draft Solicitation Released August 14, 2004 Comparison of Cupronickel and Clad Blank Specifications in TE-10 and TE-02										
Specifications for Blanks to Produce Coins in Millimeters (mm) and Inches (in)										
Out of 176 comparisons, the following 70 discrepancies were found										
Item	Coin- Nickel		Coin- Dime		Coin- Quarter		Coin- Half		Coin- Dollar	
	TE-10	TE-02	TE-10	TE-02	TE-10	TE-02	TE-10	TE-02	TE-10	TE-02
Blank Grain Size Max	0.06 mm	0.07 mm							0.06 mm	0.07 mm
Blank Grain Size Max	0.0024 in	0.003 in	NA	0.003 in	NA	0.0028 in	NA	0.003 in	0.0024 in	0.0028 in
Strip Gauge									1.650 mm	1.651 mm
Strip Gauge Tolerance (+)									0.0127 mm	0.013 mm
Strip Gauge Tolerance (-)									0.0635 mm	0.064 mm
Strip Width									12.699 in	12 11/16 in
Strip Width Tolerance (+)									0.79 mm	0.8 mm
Strip Width Tolerance (+)									0.031 in	1/32 in
Strip Width Tolerance (-)	-0.8 mm	0.0 mm	-0.8 mm	0.0 mm	-0.8 mm	0.0 mm	-0.8 mm	0.0 mm	-0.79 mm	0.0 mm
Strip Width Tolerance (-)	-1/32 in	0.0 in	-1/32 in	0.0 in	-1/32 in	0.0 in	-1/32 in	0.0 in	-0.031 in	0.0 in
Clad/Plate Thickness	missing	missing	0.174 mm	0.175 mm	0.229 mm	0.226 mm	0.290 mm	0.289 mm	0.410 mm	0.413 mm
Clad/Plate Thickness Tolerance (+)	missing	missing							0.04 mm	0.041 mm
Clad/Plate Thickness Tolerance (-)	missing	missing							0.04 mm	0.041 mm
Clad/Plate Thickness	missing	missing	0.0068 in	0.0069 in	0.0090 in	0.0089 in			0.016 in	0.0163 in
Nominal Core Thickness	missing	missing							NA	0.826 mm
Nominal Core Thickness	missing	missing							NA	0.0325 in
Roughness (max. $\mu\text{m}$ , $\mu\text{in.}$ )			0.038 $\mu\text{m}$	0.38 $\mu\text{m}$	0.038 $\mu\text{m}$	0.38 $\mu\text{m}$	0.038 $\mu\text{m}$	0.38 $\mu\text{m}$	NA	0.38 $\mu\text{m}$
Proof Roughness			0.018 $\mu\text{m}$	0.13 $\mu\text{m}$	0.020 $\mu\text{m}$	0.13 $\mu\text{m}$	0.025 $\mu\text{m}$	0.30 $\mu\text{m}$	0.38 $\mu\text{m}$	0.25 $\mu\text{m}$
Proof Roughness									15/12 $\alpha\text{in}$ *	10 $\alpha\text{in}$
Strip Hardness HR15T (min) **	82	80	80	85	80	85	80	85	82	85
Strip Hardness HR15T (max) **	95	92							95	92
Bend Test (radius)	0.04 mm	NA	0.04 mm	0.4 mm	0.04 mm	0.4 mm	0.04 mm	0.4 mm	0.04 mm	0.4 mm
Bend Test (radius)	0.02 inches	NA								
Bend Test (degrees)			180 degrees	90 degrees	180 degrees	90 degrees	180 degrees	90 degrees	180 degrees	90 degrees
Temperature (Celsius)	missing	missing	770 degrees	705 degrees	770 degrees	705 degrees	770 degrees	705 degrees	685 degrees	705 degrees
Temperature (Fahrenheit)	missing	missing							1265 degrees	1420 degrees
Max Blister Size	missing	missing							2.54 mm	2.50 mm
% Composition: (coin, clad layer, core)			NA	Std comp. 91.67% Cu & 8.33% Ni	NA	Std comp. 91.67% Cu & 8.33% Ni	NA	Std comp. 91.67% Cu & 8.33% Ni	3.7 - 4.3% Ni; 6.5 - 7.5% Mn; 11.5 - 12.5% Zn	Std comp. 88.5% Cu; 2% Ni; 3.5% Mn; 6% Zn

\* TE-10 has both 15 and 12 listed for proof roughness.

\*\* These numbers are not mm or in but measures using hardness tester in accordance with ASTM-E 18.

Appendix 4  
Management Comments



DEPARTMENT OF THE TREASURY  
UNITED STATES MINT  
WASHINGTON, D.C. 20220

October 28, 2004

MEMORANDUM FOR THOMAS E. BYRNES  
DIRECTOR, PROCUREMENT AUDITS  
OFFICE OF INSPECTOR GENERAL

FROM: Robert J. Byrd   
Associate Director/Chief Financial Officer  
United States Mint

SUBJECT: Draft Audit Report "MANUFACTURING OPERATIONS:  
Mint's Standard A-76 Competition Study for the Preparation of  
Ready-to-Coin Planchets Is Delayed and Requires Significant  
Actions to Complete."

The United States Mint has reviewed the Treasury Department Office of Inspector General (OIG) draft interim audit report "MANUFACTURING OPERATIONS: **Mint's Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Actions to Complete.**" The following comments on the report's findings/recommendations are forwarded for your consideration. We have included anticipated completion dates for actions we plan to take in response to your recommendations.

**Finding 1:** "The Mint Did Not Complete the BAU Competition Study in a Timely Manner."

**Recommendations:** The Mint Director should: (1) Formally notify the Competitive Sourcing Official (Assistant Secretary for Management and Chief Financial Officer) of the delay in completing the BAU competition; (2) Develop an achievable schedule for completing the BAU competitive study. Adherence to the schedule should be closely monitored by senior Mint management and timely action taken to address any slippages.

**Mint Response:** The United States Mint agrees with these recommendations. We are currently drafting a notification to the Competitive Sourcing Official (CSO) along with a new schedule that we believe is achievable. The notification and new schedule will be forwarded to the CSO no later than November 12, 2004.

Appendix 4  
Management Comments

Page 2

***Finding 2: "Draft Performance Work Statements for the Competition Study Were Deficient."***

***Recommendation:*** *The Mint Director should ensure that the BAU competitive study PWS provides for consistent manufacturing specifications and inspection criteria. In this regard, appropriate quality controls and supervisory review of the PWS should be put in place before future drafts of the PWS and the final solicitation are published.*

***Mint Response:*** *The PWS Team has incorporated the necessary corrections into the PWS. To ensure that future drafts of the PWS and solicitation are of the highest quality possible, we will institute an additional supervisory review process prior to posting the complete solicitation package. The additional supervisory review process will be incorporated into our procedures with an SOP that will be implemented by November 30, 2004.*

***Finding 3: "The Mint's Decisions to Offer or Not Offer GFP Were Not Justified in Writing or Approved by the CSO."***

***Recommendation:*** *The Mint Director should ensure that the required justification is prepared and the determination to provide or not provide Government Furnished Property is approved by the Assistant Secretary of Management and Chief Financial Officer. This should be accomplished before any future drafts of the PWS and the final solicitation are published.*

***Mint Response:*** *Prior to any draft posting or the issuance of the final solicitation, we will prepare a justification regarding our decision on Government-Furnished Property, and obtain approval of our decision by the Competitive Sourcing Official. The justification to provide or not provide GFP will be forwarded to the CSO no later than November 12, 2004.*

***Finding 4: "Potential Conflicts of Interest by Mint Officials and Staff Involved in the Mint's A-76 Process Need to be Addressed."***

***Recommendation:*** *The Mint Director should assign responsibilities for competitive studies and annual inventories of inherently governmental and commercial activities consistent with Circular A-76 requirements. Specifically, the Mint needs to ensure that: (1) personnel are not assigned to acting positions that may involve, or appear to involve, a conflict of interest with their regular responsibilities; and (2) inventory challenge and inventory appeal authorities are assigned to separate individuals at an appropriate management level.*

Appendix 4  
Management Comments

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Mint Response: (1) Regarding the recommendation that the Mint Director should ensure that personnel are not assigned to acting positions that may involve, or appear to involve a conflict of interest with their regular responsibilities, the following comments are offered for your consideration. The PWS Team Lead became the Acting Assistant Director for Competitive Sourcing when the incumbent of that position became ill. At that time, we recognized that this situation might cause a conflict of interest and took steps to ensure appropriate firewalls between the PWS and MEO Teams were in place. To further avoid a conflict of interest, the MEO Team was never given guidance or direction by the Acting Assistant Director for Competitive Sourcing. The Office of Competitive Sourcing participant on the MEO Team did not report directly to the Acting Assistant Director during the course of the study. To further ensure no direct sharing of information, both the MEO and PWS Teams provided progress updates for senior management and monthly Mint-wide announcements through a communications coordinator.

In future studies the Assistant Director of OCS will not serve as PWS Team Lead. We will also develop comprehensive SOP's to address and enforce firewall issues as they pertain to the completion of OCS studies. This will help eliminate any perceived conflict of interest. By taking these steps, we believe we will successfully maintain firewalls to avoid a conflict of interest and will continue to do so through study completion. These SOPs will be incorporated into our procedures no later than November 30, 2004.

(2) Regarding the recommendation to assign inventory challenge and appeal authorities to separate individuals, the United States Mint will implement this recommendation by designating an Inventory Challenge Official at the Assistant Director level or higher within the Office of the Chief Financial Officer. The Inventory Appeals Official will be a management official at the Associate Director level, most likely within the Mint Director's Office. The designations will be formalized by November 30, 2004.

Thank you for your consideration of the United States Mint's responses to your findings and recommendations. If you have any questions, please do not hesitate to contact me on 202-354-7800.

Appendix 5  
Major Contributors To This Report

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Thomas E. Byrnes, Director, Procurement Audits  
John F. Lemen, Audit Manager  
Cynthia S. McKelvin, Audit Manager  
Ricardo M. Cabarrouy, Auditor-in-Charge  
Andras O. Schneider, Auditor  
Leslye K. Burgess, Referencer

**The Department of the Treasury**

Office of Strategic Planning and Evaluations  
Office of Accounting and Internal Control  
Office of Asset Management  
Office of Budget

**Office of Management and Budget**

OIG Budget Examiner

**The Congress**

Committee on Appropriations, United States Senate  
Committee on Appropriations, House of Representatives  
Committee on Finance, United States Senate  
Committee on Financial Services, House of Representatives  
Committee on Government Affairs, United States Senate  
Committee on Government Reform, House of Representatives  
Subcommittee On Transportation,  
Treasury, and General Government, United States Senate  
Subcommittee on Transportation, Treasury,  
And Independent Agencies, House of Representatives