

# GAO Highlights

Highlights of [GAO-16-805](#), a report to congressional committees

## Why GAO Did This Study

Armed groups in eastern DRC continue to profit from the exploitation of minerals, according to the United Nations. Congress included a provision in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act that, among other things, required SEC to promulgate regulations regarding the use of conflict minerals from the DRC and adjoining countries. The act also required Commerce to develop a list of worldwide processing facilities and to assess IPSAs filed in conjunction with SEC disclosures, and included provisions for GAO to assess the SEC regulations' effectiveness in promoting peace and security and report on the rate of sexual violence in the DRC and adjoining countries.

This report examines (1) company disclosures filed in 2015 in response to the SEC conflict minerals regulations, (2) challenges to companies' due diligence efforts related to the processing facilities in conflict minerals supply chains and efforts to mitigate those challenges, and (3) Commerce's actions regarding its conflict minerals-related requirements under the Dodd-Frank Act. The report also provides information on sexual violence in the DRC and three adjoining countries. GAO analyzed a generalizable random sample of SEC filings and interviewed relevant officials.

## What GAO Recommends

GAO recommends that Commerce establish a plan outlining steps and time frames for assessing the accuracy of due diligence processes such as IPSAs, and developing the necessary expertise to fulfill these requirements. Commerce concurred with GAO's recommendation.

View [GAO-16-805](#). For more information, contact Kimberly M. Gianopoulos at (202) 512-8612 or [gianopoulosk@gao.gov](mailto:gianopoulosk@gao.gov).

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## SEC CONFLICT MINERALS RULE

### Companies Face Continuing Challenges in Determining Whether Their Conflict Minerals Benefit Armed Groups

#### What GAO Found

As a result of country-of-origin inquiries, an estimated 19 percent more companies that filed a specialized disclosure form (Form SD) with the Securities and Exchange Commission (SEC) reported that they knew or had reason to believe they knew the source of the conflict minerals in their products in 2015 than in 2014, based on a generalizable sample of filings GAO reviewed. However, after an estimated 79 percent of the companies that filed a Form SD performed due diligence, an estimated 67 percent of them reported they were unable to confirm the source of the conflict minerals in their products, and about 97 percent of them reported that they could not determine whether the conflict minerals financed or benefited armed groups in the Democratic Republic of the Congo (DRC) and adjoining countries.

Facilities that process conflict minerals pose challenges to the disclosure efforts of companies filing a Form SD because (1) these facilities generally rely on documentary evidence about the origin of conflict minerals, which may be susceptible to fraud; and (2) multiple levels of processing operations introduce fraud risk and may increase the cost associated with disclosures. Industry and other stakeholders have developed or are pursuing efforts to mitigate these risks, such as chemical "fingerprinting" to verify documentary evidence.

#### Commingled Ore from Multiple Sources for Processing



Source: GAO. | GAO-16-805

As of July 2016, the Department of Commerce (Commerce) had not submitted a report that was required in January 2013, assessing the accuracy of the Independent Private Sector Audits (IPSA) filed by some companies that filed a Form SD, nor had it developed a plan to do so. Ten companies filed the audits between 2014 and 2015 as part of their Conflict Minerals Reports, none of which Commerce has assessed. Commerce officials said they established a team in March 2016, but they noted that they did not have the knowledge, skills, or expertise to conduct IPSA reviews or to establish best practices. As a result, Congress lacks information on the accuracy of the IPSAs and other due diligence processes used by filing companies.