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.

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.

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.