

# Newsletter



## In Case You Missed It

The DoD OIG COVID-19 Oversight Plan describes the independent audits, evaluations, and investigations that the DoD OIG intends to conduct of DoD programs, operations, and activities being executed in response to the coronavirus disease-2019 (COVID-19). Read more about our COVID-19 oversight work here, [\[link\]](#).

Carol Gorman, Assistant Inspector General for Audit, Cyberspace Operations, discussed the "Summary of Reports Issued Regarding Department of Defense Cybersecurity from July 1, 2019 through June 30, 2020 with Federal News Network. Listen here, [\[link\]](#).

Moreover, DCMA supervisors and the DCMA Office of Inspector General did not provide effective oversight of the DCMA divisional administrative contracting officer's actions for settling questioned direct costs in accordance with DCMA Manual 2201-03. As a result, DCMA contracting officers may have reimbursed DoD contractors up to \$231.5 million in costs that may be unallowable on Government contracts in accordance with the Federal Acquisition Regulations.

## **Audit of Contracts for Equipment and Supplies in Support of the Coronavirus Disease-2019 Pandemic**

This audit determined that the DoD paid fair and reasonable prices on 19 of 23 contracts, valued at \$4.1 million, for the eight items reviewed which included laboratory equipment, medical supplies, and personal protective equipment. In addition, contracting personnel evaluated price reasonableness and determined that prices for all 23 contracts were fair and reasonable in accordance with DoD policy and the Federal Acquisition

## Recently Issued Reports

(to view report, if available, please click on title)

### **Evaluation of Department of Defense Contracting Officer Actions on Questioned Direct Costs**

This evaluation determined that for 12 of 26 Defense Contract Audit Agency audit reports, Defense Contract Management Agency (DCMA) contracting officers did not comply with DoD Instruction 7640.02 and DCMA policy because they did not settle, or coordinate the settlement of, \$231.5 million in questioned direct costs. The DCMA lacks adequate guidance for identifying and coordinating with other contracting officers responsible for settling questioned direct

## **Recently Issued Reports (cont'd)**

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Regulations. However, the audit identified items on four contracts for which the DoD did not pay fair and reasonable prices. The DoD paid between \$466,935 and \$530,263 more than the manufacturer's list prices or other comparable prices on four contracts for urgently needed items. However, contracting personnel had to purchase these items, which were drastically impacted by supply shortages. Although the DoD paid more than the manufacturer's list prices or other comparable prices, and therefore was unable to spend these funds on other equipment and supplies, contracting personnel were able to quickly procure the items to combat the pandemic and ensure the health and safety of Service members, their families, and other frontline health care workers.

### **Audit of Depot-Level Repairable Items at Tobyhanna Army Depot**

This audit determined that the Army Communications-Electronics Command (the Command) developed process improvements and initiated corrective action plans to address parts availability challenges that caused schedule slippages and inaccuracies in bills of material (parts listings) for Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance, and Reconnaissance (C5ISR) weapon systems. However, the Command and Tobyhanna faced challenges in other aspects of the depot-level repair process for C5ISR items, which may affect future parts availability. The Command, in conjunction with Tobyhanna, did not submit 463 of 503 manufacturer parts purchased by Tobyhanna to the Defense Logistics Agency (DLA) Logistics Information Service for national stock number assignment. As a result of not requesting the national stock numbers for 463 manufacturer parts, Tobyhanna missed out on potential savings that the DLA may have obtained by purchasing the items on behalf of Tobyhanna. In addition, Tobyhanna personnel did not correctly submit demand history adjustments to notify the DLA of parts that Tobyhanna purchased outside of the DLA supply chain. By not correctly submitting demand history adjustments, the DLA did not capture all demand for national stock numbers that Tobyhanna purchased outside of the DLA supply chain, which could affect the DLA's ability to accurately forecast supply demands.

### **Interagency Coordination Group of Inspectors General for Guam Realignment Annual Report for Fiscal Year 2020**

This report provided a detailed statement of the obligations, expenditures, and revenues associated with U.S. military construction on Guam. The annual report of the Interagency Coordination Group of Inspectors General for Guam Realignment is required by Public Law 111-84, "The National Defense Authorization Act for Fiscal Year 2010," October 28, 2009.

## **Upcoming Reports**

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Significant reports expected to be issued within the next 30 days include:

### **Understanding the Results of the Audit of the Department of Defense FY 2020 Financial Statements**

This report describes, in plain language, the FY 2020 DoD Component and agency-wide audit results; discusses significant material weaknesses, including the DoD's top priorities; and the DoD Office of Inspector General's perspective on what the DoD should do to continue its progress towards clean opinions and stronger financial management. In addition, the report describes the contents of the DoD Agency financial report, the purpose and importance of the financial statement audits, and the roles and responsibilities of DoD management and the auditors that reviewed the financial statements.

## **Navy's Plans and Response to the Coronavirus Disease–2019 Outbreak Onboard Navy Warships and Submarines**

This evaluation determines whether the Navy had and implemented policies, plans, and procedures to prevent and mitigate the spread of infectious diseases, such as the coronavirus disease–2019 (COVID-19), on its warships and submarines. The focus of this evaluation was at the Navy component command level with an emphasis on U.S. Fleet Forces Command and U.S. Pacific Fleet.

## **Quality Control Review of the BDO USA, LLP FY 2019 Single Audit of the Henry M. Jackson Foundation for the Advancement of Military Medicine**

This quality control review determines whether BDO USA, LLP (BDO) performed the FY 2019 single audit of the Henry M. Jackson Foundation for the Advancement of Military Medicine in accordance with auditing standards and Federal requirements.

## **Audit of the Army Communications-Electronics Command Billings to Customers for Industrial Services**

This audit determines whether the Army Communications-Electronics Command billed its customers in accordance with customer agreements, and the impact of any erroneous billings to the Army Communications-Electronics Command and its customers.

## **Audit of the Impact of the Coronavirus Disease-2019 on Basic Training**

This audit determines whether the DoD followed guidance and implemented procedures to prevent and reduce the spread of COVID-19 at basic military training facilities, while also maintaining military readiness.

## **Audit of Dual-Status Commanders for Use in Defense Support of Civil Authorities Missions**

This audit determines whether DoD Components nominated, certified, and appointed dual-status commanders for Defense Support of Civil Authorities missions in accordance with legal authorities and DoD policies in response to the COVID–2019 pandemic.

## **Audit of the Defense Logistics Agency's Sole Source, Captains of Industry Strategic Support Contracts**

This audit determines whether the Defense Logistics Agency's sole source, Captains of Industry strategic support contracts are achieving cost savings, value, and benefits for the DoD. Captains of Industry strategic support contracts use performance-based outcomes to provide increased warfighter support to improve the availability of spare parts and order response time, reduce repair turn-around time, improve reliability and maintenance planning, and augment repair capability.

## **Audit of Cybersecurity Requirements for Department of Defense Weapons Systems in the Operations and Support Phase of the Acquisition Process**

This audit determines whether DoD Components took action to update cybersecurity requirements for weapon systems in the operations and support phase of the acquisition lifecycle, based on publicly acknowledged or known cybersecurity threats and intelligence-based cybersecurity threats. **This report is classified.**

## Upcoming Reports (cont'd)

### Audit of Cybersecurity Controls Over the Air Force Satellite Control Network

This audit determines whether the U.S. Space Force implemented cybersecurity controls to protect the Air Force Satellite Control Network against potential threats. **This report is classified.**

### Defense Criminal Investigative Service Highlights

(to view DOJ press release, if available, please click on title)

#### Compounding Pharmacy Mogul Sentenced for Multimillion-Dollar Health Care Fraud Scheme

On January 15, 2021, a U.S. district judge in Jackson, Mississippi sentenced a local businessman to 18 years in prison and ordered him to pay over \$287 million in restitution for his role in a multimillion-dollar scheme to defraud TRICARE as well as private health care benefit programs. Wade Ashley Walters, co-owner of numerous compounding pharmacies and pharmaceutical distributors, previously pleaded guilty to one count of conspiracy to commit health care fraud and one count of conspiracy to commit money laundering. Between 2012 and 2016, Walters orchestrated a scheme to defraud health care programs by distributing compounded medications that were not medically necessary. As part of the scheme, Walters and his co-conspirators adjusted prescription formulas to ensure the highest reimbursement without regard to efficacy and solicited recruiters to procure prescriptions for high-margin compounded medications. Walters paid recruiters commissions and gave kickbacks to practitioners to authorize prescriptions for high-margin compounded medications, waive or reduced copayments, and misrepresent that pharmacies were collecting copayments. Through this scheme, Walters and his co-conspirators defrauded health care programs out of more than \$287 million and laundered these proceeds through a sham intellectual property scheme. This was a joint investigation with the Defense Criminal Investigative Service (DCIS), the Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS) Criminal Investigation Division, and the Mississippi Bureau of Narcotics.



#### Former Government Contractor Sentenced for Role in Bribery and Kickback Scheme

On January 15, 2021, a U.S. district judge in Honolulu, Hawaii, sentenced a former Government contractor to 70 months in prison followed by three years of supervised release for his role in a bribery and kickback scheme to secure Army contracts. According to court documents and information presented in court, John Winslett admitted that from 2011 to 2018, he paid over \$100,000 in bribes, which included cash, automobiles, and firearms, to two Army contracting officials who worked at the range at Schofield Barracks to steer Federal contracts, estimated at \$19 million, to his employer—a Government contractor. In addition, Winslett admitted to accepting over \$700,000 in kickbacks from a local subcontractor in exchange for contract awards to the company. This was a joint investigation with the DCIS, the FBI, and the U.S. Army Criminal Investigations Division Command.

#### Massachusetts Institute of Technology Professor Arrested and Charged with Grant Fraud

On January 14, 2021, in Boston, Massachusetts, a micro/nano engineering professor and researcher at the Massachusetts Institute of Technology (MIT) was charged and arrested in connection with failing to disclose contracts, appointments, and awards from various entities in the People's Republic of China (PRC) to the Department of Energy. Gang Chen was charged by criminal complaint with wire fraud, failing to file a foreign bank account report, and making a false statement in a tax return. Since approximately 2013, Chen's research

## **Defense Criminal Investigative Service Highlights (cont'd)**

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at MIT was funded by more than \$19 million in grants awarded by various Federal agencies. Chen allegedly received approximately \$29 million of foreign funding, including \$19 million from the PRC's Southern University of Science and Technology. From at least 2017 to 2019, while he served in several advisory roles for the PRC and related entities, Chen applied for and obtained a Department of Energy grant to fund a portion of his research at MIT. In doing so, Chen allegedly failed to disclose information about his ongoing affiliations with the PRC. Chen also allegedly failed to disclose to the IRS that he maintained a bank account in the PRC with more than \$10,000 in 2018. This was a joint investigation with DCIS, the FBI, Homeland Security Investigations, and the Department of Energy Office of Inspector General.

### **Boeing-Owned Drone Maker to Pay \$25 Million to Settle Allegations that it Used Recycled Parts on Military Projects**

On January 12, 2021, in Seattle, Washington, the company Insitu Inc. agreed to pay \$25 million to settle allegations that it violated the False Claims Act by knowingly submitting materially false cost and pricing data for contracts with U.S. Special Operations Command and the Navy to supply and operate unmanned aerial vehicles. Between 2009 and 2017, Insitu entered into contracts with the Navy and U.S. Special Operations Command for the supply and operation of unmanned aerial vehicles, also known as drones, at various sites identified in the contracts. The settlement resolves allegations that Insitu knowingly induced the Government to award these noncompetitively bid contracts at inflated prices by proposing cost and pricing data for new parts and materials, while planning to use less expensive recycled, refurbished, and reconditioned or reconfigured parts to perform the contracts. The settlements resolve allegations filed in a qui tam lawsuit by D.R. O'Hara, a former executive of Insitu, in Federal court in Seattle, Washington. Mr. O'Hara will receive over \$4 million of the recovered funds. This was a joint investigation with DCIS, the FBI, the Naval Criminal Investigative Service, and the Defense Contract Audit Agency.

## **Announced Projects** (to view the announcement letters, if available, please click on the title)

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### **Evaluation of U.S. Central Command and U.S. Special Operations Command's Implementation of the Department of Defense's Law of War Program**

The objective of this evaluation is to determine the extent to which U.S. Central Command (USCENTCOM) and U.S. Special Operations Command (USSOCOM) developed and implemented programs to reduce potential law of war violations when conducting operations in accordance with DoD Law of War requirements. This evaluation will also determine whether potential USCENTCOM and USSOCOM law of war violations were reported and reviewed in accordance with DoD policy.

### **Evaluation of U.S. Special Operations Command's Supply Chain Risk Management for the Security, Acquisition, and Delivery of Specialized Equipment**

The objective of this evaluation is to determine the extent to which USSOCOM developed and implemented supply chain risk management procedures in accordance with the Defense Federal Acquisition Regulation Supplement and DoD policy to identify, assess, and mitigate risk during the acquisition and development of USSOCOM specialized equipment.

## **Announced Projects (cont'd)**

### **Audit of Department of Defense Hotline Allegations Concerning the U.S. Special Operations Command's Maritime Precision Engagement Program**

The objective of this audit is to determine whether USSOCOM appropriately allocated funds to validated requirements for the Maritime Precision Engagement program according to DoD and USSOCOM acquisition policy.

### **Audit of the Office of Net Assessment's Contracting Administration Procedures**

The objective of this audit is to determine whether contract administration of the DoD Office of Net Assessment's contracts complied with applicable Federal and DoD policies.

### **Audit of the Reuse of Excess Department of Defense Property**

The objective of this audit is to determine whether DoD Components reused excess Defense Logistics Agency-managed property to fill existing needs before initiating new procurements for the same items.

### **Audit of the Department of Defense's Implementation of Predictive Maintenance Strategies to Support Weapon System Sustainment**

The objective of this audit is to determine whether the DoD is tracking, monitoring, and effectively sharing lessons learned regarding impacts of predictive maintenance on weapon system sustainment. In addition, the audit will determine whether select predictive maintenance strategies are achieving cost and availability goals.

### **Audit of Department of Defense Small Business Subcontracting**

The objective of this audit is to determine whether DoD contractors that were awarded small business set-aside and sole-source contracts complied with the established subcontracting limitations in accordance with applicable laws and regulations.

### **Audit of the Department of Defense's Implementation of the Cybersecurity Information Sharing Act of 2015**

The objective of this audit is to assess DoD actions taken in 2019 and 2020 to implement the Cybersecurity Information Sharing Act of 2015 (CISA) requirements. CISA requires the Inspectors General of seven Federal entities—the Departments of Commerce, Defense, Energy, Homeland Security, Justice, and Treasury, and the Office of the Director of National Intelligence—to jointly report to Congress no later than 2 years after the enactment date of CISA, and once every 2 years thereafter, on the actions of the Executive branch of the U.S. Government to carry out CISA requirements.

### **Followup Audit of Army Oversight of Logistics Civil Augmentation Program IV Government-Furnished Property in Afghanistan**

The objective of this followup audit is to determine whether the Army implemented the recommendations identified in DODIG-2018-040, "Army Oversight of Logistics Civil Augmentation Program Government-Furnished Property in Afghanistan," December 11, 2017, to improve the accountability of Government-furnished property.

## **Announced Projects (cont'd)**

### **Audit of Department of Defense Stipends Provided to the Vetted Syrian Opposition From the Counter-Islamic State of Iraq and Syria Train and Equip Fund**

The objective of this audit is to determine whether the DoD verified that vetted Syrian opposition groups met DoD requirements when providing the groups with stipends from the Counter-Islamic State of Iraq and Syria Train and Equip Fund for Syria. The audit will also determine whether the DoD established internal controls to ensure the stipend payments were accurately distributed to vetted Syrian opposition groups.