

Newsletter



Recently Issued Reports

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

On November 16, 2020, the DoD OIG issued a disclaimer of opinion on the FY 2020 Agency-Wide Basic Financial Statements, meaning an overall opinion could not be expressed on the financial statements under audit. Audit opinions, by their nature, are technical, follow a prescribed format, and may not be easily understood without a background in accounting. The DoD OIG issued this report to explain the results of the FY 2020 audit report in clear and understandable terms for the Congress and the public. 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.

In Case You Missed It

Deputy AIG for Audit, Carmen Malone, discussed the results of the audit of the DoD FY 2020 financial statements with Government Matters, Feb. 28, 2021.

Carmen Malone, Deputy Assistant Inspector General for Audit, Financial Management and Reporting, discussed the results of the audit of the DoD FY 2020 financial statements with Government Matters. Click [here](#) to watch the interview [\[link\]](#).

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

This audit determined that Defense Logistics Agency (DLA) officials expect to achieve improvements in material availability and cost savings under the Boeing Captains of Industry (COI) contract. For the three contract line items reviewed, material availability improved and the DLA anticipates a 5-year cost savings of \$430.1 million. However, the audit identified an inconsistency regarding the

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DLA's consideration of a cost recovery rate within the business case analyses and found that the DLA potentially overstated its estimated cost savings by \$127.1 million. Additionally, the audit identified that the DLA did not have visibility of actual spare parts prices under the three performance-based contract line items we reviewed. Validating business case analysis estimates could improve the estimating and tracking of cost savings and help DLA contracting officials with decisions on whether to proceed with additional performance-based work. The Boeing COI contract included bundling, which is the consolidation of two or more requirements for supplies or services previously provided by small business under separate contracts into a solicitation for a single contract. However, DLA contracting officials did not plan for bundling on the sole source COI contract. The DLA's bundling analysis prioritized estimated costs savings and did not evaluate the impact on small businesses or contain correct information about the dollar value of historical DLA contracts or the number of parts provided by small businesses. As a result, DLA contracting officials agreed to set small business participation for the F-15 work at 15.7 percent, which was significantly lower than the previously demonstrated small business participation rate of 43 percent. Therefore, actual small business participation for the 2,550 F-15 parts bundled on the COI contract was reduced by 61 percent, from \$52.4 million prior to bundling work on the COI contract in 2017, to \$20.7 million as of July 2020. The audit also determined that the Moog COI contract contains no performance-based metrics. The DLA uses the Moog contract to purchase material; therefore, according to DLA officials, the Moog contract does not lend itself to incentive metrics. However, the DLA monitors Moog's ability to meet on-time delivery rates. Moog experienced challenges meeting on-time delivery rates in accordance with contract requirements. On-time delivery rates are a measurement of how often Moog delivers orders on time, expressed as a percentage.

Navy's Plans and Response to the Coronavirus Disease-2019 Outbreak Onboard Navy Warships and Submarines

This evaluation determined the DoD and the Navy had policies, plans, and procedures to mitigate the spread of pandemic influenza and infectious, and collected and disseminated lessons learned to specifically prevent and mitigate, or combat, COVID-19. However, the Navy had not fully implemented measures intended to reduce the risk of the spread of infectious diseases, increasing the risk of infectious diseases, such as COVID-19, spreading quickly if introduced onboard warships and submarines. According to the Navy's Command Investigation Concerning Chain of Command Actions with Regard to COVID-19 Onboard USS Theodore Roosevelt, the ineffective implementation of social distancing and the premature release of sailors from quarantine were primary causes of increased infection onboard the ship. In addition, the USS Theodore Roosevelt leadership team allowed social gathering areas to remain open and continued to perform urinalysis testing for illegal substances that the leadership team should have considered non-essential during the COVID-19 outbreak. As of August 1, 2020, lessons learned from the COVID-19 outbreak on the USS Kidd were still being collected by the Navy Marine Corps Public Health Center.

Audit of Contracts for Department of Defense Information Technology Products and Services Procured by Department of Defense Components in Response to the Coronavirus Disease-2019 Pandemic

This audit determined that the Military Departments, Defense Health Agency, and Defense Information Systems Agency (DoD Components) procured information technology products and services in accordance with the Coronavirus Aid, Relief, and Economic Security Act and other Federal and DoD requirements. For the 28 contract actions reviewed, the DoD Components paid fair and reasonable prices for information technology products and services to support COVID-19 response operations, performed a risk assessment for known cybersecurity vulnerabilities and developed risk mitigation strategies before procuring or using the

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information technology products; and accurately reported the required COVID-19-related codes to USAspending.gov. As a result, DoD stakeholders have assurance that the DoD Components procured \$81.5 million in information technology products and services for COVID-19 response at reasonable prices and reduced the risk of cybersecurity vulnerabilities.

Audit of Cybersecurity Requirements for Weapons Systems in the Operations and Support Phase of the Department of Defense Acquisition Life Cycle

This audit determined that program officials for the five DoD weapon systems assessed complied with Risk Management Framework requirements and obtained an authorization to operate. Officials also took actions to update cybersecurity requirements during the operations and support phase of the acquisition life cycle based on publicly acknowledged or known cybersecurity threats and intelligence-based cybersecurity threats. For example, Military Department officials and U.S. Special Operations Command regularly obtained and analyzed cyber threats from various intelligence agencies to assess potential operational impacts to weapon systems. Based on their analysis, cybersecurity requirements were updated to account for additional countermeasures implemented to protect weapon systems from identified threats. This audit identified best practices employed by program officials that ensured the information and analysis was sufficient to identify and mitigate potential malicious activity, cyber vulnerabilities, and threats; and assessed the effectiveness of protection measures within the weapon system for data and cyber resiliency.

Audit of Dual-Status Commanders for use in Defense Support of Civil Authorities Missions in Support of the Coronavirus Disease-2019 Pandemic

This audit determined that DoD Components managed and coordinated the nomination, certification, and appointment of Dual-Status Commanders (DSC) to support COVID-19 relief efforts in accordance with applicable laws and regulations. All appointed DSCs met eligibility and qualification requirements, DSC appointment documents were complete, and DSCs were appointed (on average) within 2 days of receipt of the governor's state and territory appointment memorandums. In addition, the 14 states that had eligible and qualified officers assigned to their National Guards that could serve as a DSC if required. This audit also identified three best practices that state or territory National Guards can apply to improve their responsiveness and ability to employ DSCs to support Defense Support of Civil Authorities missions.

Upcoming Reports

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

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 the coronavirus disease-2019 (COVID-19) at military basic training facilities, while maintaining military readiness.

Maintaining Cybersecurity in the Coronavirus Disease-2019 Telework Environment

This audit determines whether DoD Components maintained network protections as the DoD workforce maximized the use of telework capabilities to ensure the continuity of mission essential tasks during the COVID-2019 pandemic.

Upcoming Reports (cont'd)

External Peer Review of the Defense Contract Audit Agency

This review determines, for the 3-year period ended June 30, 2019, whether the system of quality control for the Defense Contract Audit Agency was designed and complied with to provide reasonable assurance of conforming in all material respects with the Government Auditing Standards and applicable legal and regulatory requirements.

External Peer Review of U.S. Air Force Audit Agency Sensitive Activities Audits

This review determines, for the 3-year period ended December 31, 2019, whether the system of quality control for the Air Force Audit Agency Special Access Program was designed and complied with to provide reasonable assurance of conforming in all material respects with the Government Auditing Standards and applicable legal and regulatory requirements.

Evaluation of Defense Contract Management Agency Actions Taken on Defense Contract Audit Agency Report Findings Involving Two of the Largest Department of Defense Contractors

This evaluation determines whether the actions taken by Defense Contract Management Agency contracting officers on Defense Contract Audit Agency audit reports complied with the Federal Acquisition Regulation, DoD Instruction 7640.02, and Defense Contract Management Agency policy.

Audit of Host Nation Logistical Support in the U.S. European Command

This audit determines whether U.S. European Command host nation support agreements address the logistical requirements necessary to execute its operations plan.

Audit of the Department of Defense Infrastructure Planning in Australia

This audit determines whether the DoD planned infrastructure projects supporting rotational forces in Australia in accordance with applicable laws, DoD regulations, and U.S. Indo-Pacific Command's operational requirements.

Audit of Coalition Partner Reimbursements for Air Transportation Services in Afghanistan

This audit determines whether the DoD sought full reimbursement for air transportation services provided to Coalition partners in Afghanistan in accordance with DoD policy and international agreements.

Audit of the U.S. Army's Communications-Electronics Command's Billings to Customers for Industrial Services

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

Upcoming Reports (cont'd)

Audit of the Award and Administration of National Guard Youth Challenge Program Cooperative Agreements

This audit determines whether the award and administration of National Guard Youth Challenge Program cooperative agreements were in accordance with applicable Federal law and DoD policies and whether the academies achieved program goals and objectives.

Defense Criminal Investigative Service Highlights

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



Japanese CEO and Employees Charged in Scheme to Defraud U.S. Navy and Dump Wastewater in Ocean

On February 17, 2021, a Federal grand jury indicted three Japanese nationals in connection with an alleged scheme to defraud the Navy and pollute Japanese waters by dumping contaminated water from ships into the ocean. Sojiro Imahashi, the president and CEO of Kanto Kosan Co. Ltd., with co-conspirators Tsuyoshi Ifuku and Yuki Yamamiya, were charged with one count of conspiracy, four counts of major fraud against the U.S., and six counts of submitting false claims.

Kanto Kosan, based in Yokohama, Japan, received contracts from the Navy valued at approximately \$120 million, over \$10 million of which related to the disposal of contaminated oily wastewater (OWW) generated by U.S. ships. Kanto Kosan was typically required to treat the OWW in accordance with Japanese environmental regulations prior to discharging it into the ocean. Instead, the defendants allegedly decided that the company would minimally treat OWW to remove visible contaminants and then discharge the contaminated OWW into the ocean. To circumvent the testing regime, the defendants directed that a storage tank on their treatment barges maintain tap water, and directed personnel from the environmental testing laboratories to take samples from those tanks. Kanto Kosan employees also added OWW to the tanks filled with tap water on occasion, to avoid exposing the scheme. This was a joint investigation with the Defense Criminal Investigative Service (DCIS) and the Naval Criminal Investigative Service (NCIS).

Concrete Contractor Agrees to Settle False Claims Act Allegations for \$3.9 Million

On February 17, 2021, the U.S. Attorney of the Southern District of California announced that Colas Djibouti, a subsidiary of a French civil engineering company, agreed to pay \$3.9 million to resolve civil allegations that it violated the False Claims Act by selling substandard concrete used to construct U.S. Navy airfields in the Republic of Djibouti. According to the civil settlement, Colas Djibouti knowingly provided noncompliant concrete that did not meet gradation requirements, contained excessive alkali-silica reactive material, and contained elevated chloride content. These conditions had the potential to promote early-age cracking, surface defects, and the corrosion of embedded steel, and could significantly impair the long-term durability of the concrete used on U.S. bases. This was a joint investigation with DCIS, NCIS, and the Defense Contract Audit Agency Operations Investigative Support Division.

Judge Sentences Medical Group Owner to Nine Years in Prison for Fraud and Kickback Scheme

On February 5, 2021, a U.S. district judge in Saint Louis, Missouri, sentenced Denis Mikhlin, owner of the medical group "Doctors on the Go," to 108 months in prison following his guilty plea to four felony charges. These charges included fraudulent possession of oxycodone and other opioid drugs, illegal kickbacks, and \$4.7 million in erroneous Medicare and Medicaid payments for medically unnecessary prescription drugs.

Defense Criminal Investigative Service Highlights (cont'd)

tests. Mikhlin conspired with Dr. Jerry Leech and other co-conspirators to issue and distribute illegal prescriptions for opioids and other controlled substances to patients, knowing that they did not have a legitimate medical need for the drugs and were abusing or selling them. Additionally, Mikhlin paid individuals to obtain drugs for him through fraudulent prescriptions. To conceal this illegal activity, Mikhlin and his co-conspirators created files falsely indicating the patients had been examined by the prescribing doctors and were being regularly monitored and tested. To date, co-defendant Dr. Jerry Leech and five other co-conspirators have pleaded guilty to felony counts for their actions related to this scheme. This was a joint investigation with DCIS, the Department of Health and Human Services Office of Inspector General, the Federal Bureau of Investigation (FBI), and the Missouri Medical Fraud Control Unit.

Pharmacist Sentenced to Ten Years in Federal Prison for Conspiracy to Commit Health Care Fraud

On February 2, 2021, a U.S. district judge in Jackson, Mississippi, sentenced Marco Bisa Hawkins Moran to 120 months in prison for conspiring to commit health care fraud. Moran was also ordered to pay a monetary judgment of over \$12 million, over \$22 million in restitution, and a \$20,000 fine. Moran, co-owner of Medworx Compounding and Custom Care Pharmacy, pleaded guilty to participating in a scheme to defraud TRICARE and other health care benefit programs, including those that provided coverage to employees of the city of Jackson. In total, the pharmacies submitted over \$22 million in fraudulent claims to Tricare and other health care benefit programs. As part of the scheme, Moran and his co-conspirators adjusted prescription formulas to ensure the highest reimbursement, paid marketers and physicians kickbacks and bribes to obtain prescriptions for high-yield compounded medications, and routinely waived and reduced the collection of copayments. This was a joint investigation with DCIS, FBI, the Internal Revenue Service Criminal Investigations Division, and the Mississippi Bureau of Narcotics.

Announced Projects

(to view the announcement letters, if available, please click on the title)

External Peer Review of the Defense Commissary Agency, Office of Internal Audit

The objective of this review is to determine, for the 3-year period ended January 31, 2021, whether the quality control program for the Defense Commissary Agency, Office of Internal Audit, is designed to provide reasonable assurance that the policies and procedures related to the system of audit quality are suitably designed, operating effectively, and complied with in practice.

Systems Review of the U.S. Army Criminal Investigation Division Command's Internal Control Systems for Criminal Investigations and Supporting Programs

The objective of this review is to determine the extent to which the U.S. Army Criminal Investigation Division Command's (USACIDC) internal controls and inspections are suitably designed to efficiently and effectively provide reasonable assurance that USACIDC personnel are complying with DoD and Service investigative standards and policies to ensure high quality and timely criminal investigations. The review will also determine whether the USACIDC investigative support programs provide efficient and effective support to criminal investigations and whether USACIDC personnel respond to and investigate allegations of criminal incidents, as required by DoD and Service policy.

Announced Projects (cont'd)

Quality Control Review of the BKD LLP Fiscal Year 2019 Single Audit of MRIGlobal and Related Entities

The objective of this review is to determine whether the audit was performed in accordance with Federal requirements and applicable auditing standards. The single audit is required by Title 2 Code of Federal Regulations part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards."

Evaluation of the Air Force Selection Process for the Permanent Location of the U.S. Space Command Headquarters

The objective of this evaluation is to review the basis for selecting Huntsville, Alabama, as the preferred permanent location of the U.S. Space Command headquarters. This evaluation will focus on the extent to which the Air Force complied with DoD and Air Force policies during the location selection process, used objective and relevant scoring factors to rank the six candidate locations, and calculated the cost and other scoring factors accurately and consistently among the six candidate locations.

Audit of Department of Defense Education Activity Grant Oversight

The objective of this audit is to determine whether the DoD Education Activity is verifying that grantees are meeting the terms and conditions of grants.

Audit of the Department of Defense Components' Award and Administration of Cost-Reimbursement Contracts

The objective of this audit is to determine whether DoD officials awarded and administered cost-reimbursable contracts in accordance with Federal law and DoD regulations and guidance.

Audit of Department of Defense Actions Taken to Protect Department of Defense Information Network Resulting From the SolarWinds Orion Compromise

The objective of this audit is to determine the actions taken by the DoD to identify, respond to, and mitigate compromise to DoD networks and systems that resulted from its use of SolarWinds Orion software.