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MEMORANDUM FOR SECRETARY OF DEFENSE
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SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
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CHIEF OF THE NATIONAL GUARD BUREAU
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SUBJECT: COVID-19 Expenditures – Lessons Learned Regarding Awareness of Potential Fraud, Waste, and Abuse Risk

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) will result in a significant expenditure of funds across the Government, including the Department of Defense (DoD). The CARES Act provides over \$10 billion to support the military response to the coronavirus. Among other things, the CARES Act provides funding for emergency deployments of National Guard personnel, medical care and countermeasures, the expansion of military treatment facilities, procurement of diagnostic tests, and steps to increase access to materials necessary for national security and pandemic recovery.

The CARES Act also provides the DoD flexibility in its use of undefinitized contract actions. The Department of Defense Office of Inspector General (DoD OIG) anticipates an increase in DoD contracting actions associated with the implementation of the CARES Act.

Moving quickly to use these funds effectively while avoiding fraud, waste, and abuse is a critical but challenging task. Fraudsters have already begun targeting these funds, and DoD personnel need to be on the lookout for fraud and waste and be proactive in their efforts to thwart these activities before they occur.

The DoD OIG recognizes these challenges, and is therefore providing this document to share best practices and lessons learned that we have identified during our previous oversight work. We believe that this document can help the DoD use CARES Act funds effectively while at the same time seeking to prevent fraud, waste, and abuse.

As described in more detail in the documents linked below, based on our previous work, we believe the DoD should seek to focus on the following areas as it implements the CARES Act.

1. **Requirements.** Requirements can change quickly and DoD officials should reevaluate requirements as conditions evolve. When conditions do not allow for clearly defined requirements, contracting officials should use contract structures that allow them to develop more well-defined requirements for segments of work, such as delivery and task orders or basic ordering agreements.
2. **Contractor Vetting.** Contracting officials should seek to ensure robust vetting of contractors and vendors before awarding contracts. Such steps may help limit financial liability and also disclose previous or unknown patterns of collusive bidding, price manipulation, and, in some instances, hidden or opaque relationships between contractors.
3. **Oversight and Surveillance.** Program and contracting officials should seek to establish, and follow, a well-documented surveillance approach. In addition, program and contracting officials should ensure sufficient contract oversight occurs and that oversight personnel are adequately trained.
4. **Financial Management.** Contracting officials should maintain complete, consistent, and accurate contract files and accounting records to reduce the potential for improper use of CARES Act funding and violations of the Antideficiency Act and to minimize the number of problem disbursements. Additionally, contracting officials should maintain a copy of all invoices and vouchers and a payment register indicating the balance of funds remaining.

To provide further guidance and lessons learned, we are providing the links below that may be helpful in understanding contracting and fraud risks and how to avoid them. These lessons, while mostly related to contingency environments and disaster relief efforts, are equally applicable to the pandemic response. Many of the same elements that create risk in those environments will be present as funding is used under the CARES Act.

We recommend that the DoD review these resources as it develops guidance for the execution of the CARES Act and distribute these resources broadly to appropriate personnel within the DoD to promote awareness of potential issues that can be addressed early in the contracting process to help avoid fraud, waste, and abuse of Government relief funds.

Report No. DODIG-2015-101, “Contingency Contracting: A Framework for Reform – 2015 Update.” This report summarizes a series of DoD OIG contingency contracting reports and discusses areas within the contracting process where contract oversight issues were identified. It also contains a short summary (pages 39-42) of contracting actions that should be taken in contingency contracting environments to avoid issues that have occurred in the past when contracting efforts were undertaken under atypical and expedited circumstances.
Link: <https://media.defense.gov/2015/Mar/31/2001713485/-1/-1/1/DODIG-2015-101.pdf>

Also, attached to this memorandum are two key excerpts from this report on contingency contracting. The first attachment, “Key Aspects of the Contracting Process,” provides a visual tool for DoD managers and contracting officers that details common areas of concern in the contracting process identified in past DoD OIG work. The DoD could use this tool to assess the strengths and weaknesses of its contracting approaches as it implements the CARES Act.

The second attachment, "Fraud Indicators and Poor Practices in Relation to the Contracting Problem Areas," provides information that encourages real-time awareness of contracting areas that are susceptible to fraud and contributors to waste and abuse.

Fraud Detection Resources for Auditors. The DoD OIG's website also includes a resource page that provides a series of links to information related to fraud, including fraud alerts and indicators. These resources highlight key generally accepted government auditing standards (GAGAS) requirements, and overall DoD audit expectations and best practices for identifying and detecting potential fraud. In addition, the website contains summaries of various scenarios and fraud indicators and describes situations related to some common fraud schemes that DoD auditors have previously encountered. While geared towards auditors, the scenarios and fraud indicators discussed in this document can be useful to DoD management as they implement the CARES Act.

Link: <https://www.dodig.mil/Resources/Fraud-Detection-Resources/>

Finally, we encourage the DoD to remind personnel about the DoD Hotline and their responsibility to report suspected fraud, waste, abuse, or allegations of mismanagement involving the CARES Act. DoD personnel can contact the DoD Hotline through the online complaint form at: <https://www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/> or by phone at 1-800-424-9098 (toll-free) or 703-604-8799 (commercial).

We hope this information is useful as the DoD moves forward under the CARES Act. If you have any questions about this memorandum, please contact [REDACTED] at [REDACTED] or [REDACTED], at [REDACTED].



Glenn A. Fine
Principal Deputy Inspector General
Performing the Duties of the Inspector General

cc:

AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE
SERVICE INSPECTORS GENERAL