

## Why GAO Did This Study

DOD generally accounts for about two-thirds of federal contracting activity. Some companies doing business with DOD may have an opaque ownership structure that conceals other entities or individuals who own, control, or financially benefit from the company. Opaque ownership could be used to facilitate fraud and other unlawful activity.

The House Armed Services Committee report on the National Defense Authorization Act for fiscal year 2018 included a provision for GAO to examine the risks posed by contractors with opaque ownership and DOD's processes for identifying ownership. This report identifies types of fraud and other risks that opaque contractor ownership poses to DOD in the procurement process and assesses whether DOD has taken steps to address those risks. GAO reviewed applicable laws and regulations and interviewed DOD officials, including procurement staff and criminal investigators. GAO researched cases from 2012–2018 where contractors may have concealed or failed to disclose ownership information. GAO compared DOD's efforts to leading practices in GAO's Fraud Risk Framework. This is a public version of a sensitive report that GAO issued in September 2019. Information that DOD deemed sensitive involving ongoing investigations and certain internal controls and vulnerabilities has been omitted.

## What GAO Recommends

GAO recommends that DOD assess risks related to contractor ownership as part of DOD's ongoing efforts to assess fraud risk. DOD should use this information to inform other types of risk assessments, including national security concerns. DOD concurred with GAO's recommendation.

View [GAO-20-106](#). For more information, contact Seto J. Bagdoyan at (202) 512-6722 or [bagdoyans@gao.gov](mailto:bagdoyans@gao.gov).

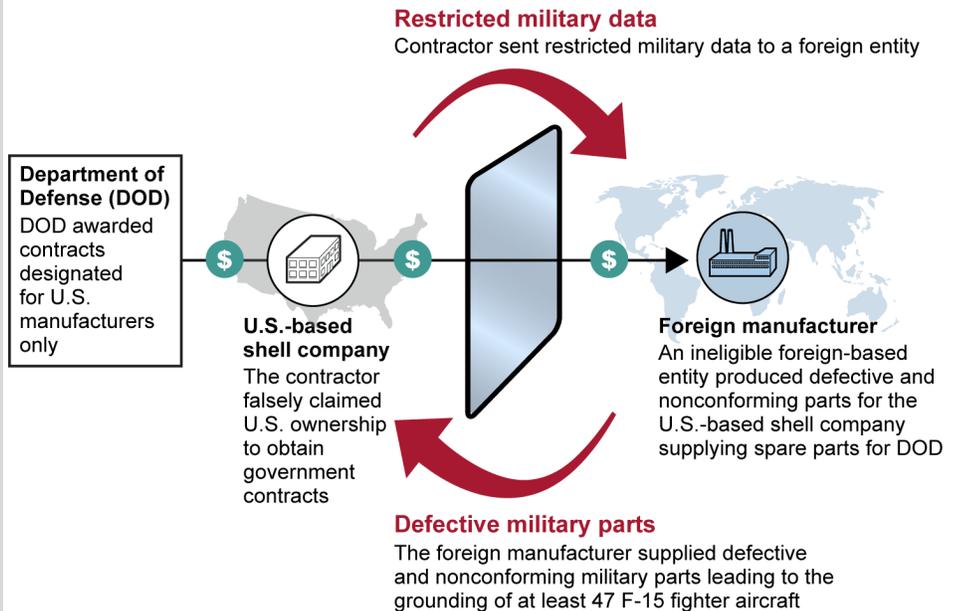
# DEFENSE PROCUREMENT

## Ongoing DOD Fraud Risk Assessment Efforts Should Include Contractor Ownership

### What GAO Found

The Department of Defense (DOD) faces several types of financial and nonfinancial fraud and national security risks posed by contractors with opaque ownership. These risks, identified through GAO's review of 32 adjudicated cases, include price inflation through multiple companies owned by the same entity to falsely create the appearance of competition, contractors receiving contracts they were not eligible to receive, and a foreign manufacturer receiving sensitive information or producing faulty equipment through a U.S.-based company. For example, one case involved an ineligible foreign manufacturer that illegally exported sensitive military data and provided defective and nonconforming parts that led to the grounding of at least 47 fighter aircraft, as illustrated below.

#### Ineligible Foreign Manufacturer Fraudulently Obtaining DOD Contracts



Source: GAO analysis of federal court records. | GAO-20-106

DOD has taken some steps that could address some risks related to contractor ownership in the procurement process but has not yet assessed these risks across the department. DOD, in coordination with other agencies, revised the Federal Acquisition Regulation in 2014 to require contractors to self-report some ownership information. DOD has taken steps to identify and use ownership information—for example, as part of its supply-chain risk analysis when acquiring critical components. DOD has also begun a department-wide fraud risk management program, but it has neither assessed risks of contractor ownership across the department nor identified risks posed by contractor ownership as a specific area for assessment. Assessing risks arising from contractor ownership would allow DOD to take a strategic approach to identifying and managing these risks, make informed decisions on how to best use its resources, and evaluate its existing control activities to ensure they effectively respond to these risks.