



SECRETARY OF WAR
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WASHINGTON, DC 20301-1000

JAN 16 2026

MEMORANDUM FOR SENIOR PENTAGON LEADERSHIP
COMMANDERS OF THE COMBATANT COMMANDS
DEFENSE AGENCY AND DOW FIELD ACTIVITY DIRECTORS

SUBJECT: Contract Review of All Small Business Sole Source and Set-Aside Awards Above \$20 Million in Contract Value

When I became Secretary of War, I committed to eliminating all unconstitutional and non-merit-based DEI (diversity, equity and inclusion) initiatives at the Department of War (DoW) to ensure that taxpayer funds are used exclusively to improve the capabilities and lethality of the American warfighter. I also promised to eliminate waste, fraud, and abuse at the DoW and redirect that money towards President Trump's America First priorities. Today, by working with our partners across government and the DoW DOGE team to audit the oldest DEI program in the federal government, the Small Business Administration's 8(a) (SBA) program, I am doing both.

Last year, SBA Administrator Loeffler began a full-scale, government-wide audit of the SBA's 8(a) program after the Department of Justice (DOJ) exposed \$550 million of 8(a) fraud. The SBA required contractors to provide detailed financial information to prove compliance. In response, Treasury Secretary Bessent ordered a Treasury-wide audit of all preference-based contracting following allegations of more than \$250 million of 8(a) pass-through fraud at the Treasury Department.

The DoW has almost ten times the 8(a) contracting spend of any other agency. As a result, we are going above and beyond any other agency in our efforts to combat waste, fraud, and abuse. I am ordering a line-by-line review of all small business sole source and set aside awards above \$20 million in contract value.

This review will have two stages. First, it will identify any contracts that are inconsistent with the DoW's warfighting priorities. The DoW has no room in its budget for DEI and other wasteful contracts that do not advance our core mission of creating a lethal fighting force.

Second, we'll ensure that every small business that received a sole source or set-aside contract is performing the work and not illegally passing through the contract to large businesses that are ineligible to receive the award. The purpose of DoW small business spending is to build out the defense industrial base and support legitimate small businesses, not illegal pass-through schemes.

The directives detailed in the attached will continue the effort to reform our acquisition process and be good stewards of taxpayer dollars.

Attachment:
As stated



Attachment:

In Fiscal Year (FY) 2024, the DoW awarded more than \$18 billion in contracts to 8(a) program participants and more than \$80 billion to small businesses in general. Pursuant to Sections 5 and 6 of Executive Order 14265, "Modernizing Defense Acquisitions," and informed by the SBA's comprehensive audit and multiple DOJ investigations into illegal small business pass-through schemes, this memorandum orders a review of all small business sole-source and set-aside contracts above \$20 million.

By January 31, 2026, each Component should identify awarded contracts that meet any of the following criteria:

1. A sole source award to an 8(a) firm in an amount over \$20 million
2. A set-aside award to an 8(a) firm in an amount over \$20 million
3. A set-aside award to a small business in an amount over \$20 million (identifying the type of set-aside)

For each contract that meets any of the above criteria, the relevant Assistant Secretary, Senior Executive Service civil servant, or military equivalent shall review and determine whether these contracts are consistent with the Secretary of War's May 27, 2025 memorandum, *Implementation of Executive Order 14222 – Department of Government Efficiency Cost Efficiency Initiative*, and necessary for mission. Any contract that is not critical to the Department's warfighting capabilities, including research and development, industrial base investments, and enabling products and services, should be terminated for convenience to the maximum extent consistent with law to ensure adequate funding of DoW's unfunded priorities.

Upon completion of these reviews and contract terminations, the Assistant Secretaries, Senior Executive Service civil servants, or military equivalents will direct the relevant offices to complete a detailed secondary review, no later than February 28, 2026, of current contract performance data to confirm that each contractor is complying with applicable limitations on subcontracting. These reviews should utilize the readily available data sources listed below, as well as any other relevant sources of data, to identify improper subcontracting practices. Any evidence of improper subcontracting, such as evidence of excessive pass-through charges, should also be sent to the DoW Inspectors General and SBA for review and, where deemed necessary by such offices, for referral to the DOJ.

Contractor Invoice and Payment Records: Review invoices and supporting documentation (e.g., labor hour reports, payment ledgers) to verify the dollar value paid, and percentage of work subcontracted.

Contracting Officer's Representative (COR) Logs/Reports: Review documentation and logs maintained by CORs detailing on-site staffing, primary points of contact, and physical presence to confirm whether the prime contractor or similarly situated entities are performing the majority of the contracted work.

Personnel Confirmation: The COR or other personnel monitoring the work performed by contractors should confirm that the primary points of contact and personnel performing the substantive, specialized work required by the statement of work belong to the prime contractor.

Contract Deliverables and Technical Reports: Review periodic technical reports and deliverables to confirm the prime contractor, rather than a subcontractor, is providing the substantive, specialized work required by the statement of work.

As part of these reviews, the Assistant Secretaries, Senior Executive Service civil servants, or military equivalents should also confirm that the contracts identified are being performed at or below market rates. Reviewers should first utilize contract pricing reports and Defense Contract Audit Agency audit reports. If there is not enough information readily available in those reports to make a determination regarding subcontracting work performance, contracting officers or CORs should request additional information from prime contractors (e.g., staffing logs, payment records, and other relevant information).

Once these reviews have been completed, each Assistant Secretary, Senior Executive Service civil servant, or military equivalent should provide the DoW DOGE team and the Under Secretary of War (Comptroller) the following:

1. A list of all identified sole source or set-aside contracts within the purview of this memorandum, separated by organization within the Component.
2. A list of all sole source or set-aside contracts terminated for convenience pursuant to this memorandum.
 - a. For all sole source contracts that are neither terminated nor identified for future termination, the results of an examination determining whether there are any other providers that offer comparable services for better value.
3. A list of all sole source or set-aside contracts within the purview of this memorandum that exceed the 50% limitation on subcontracting. This should include an estimate of the percentage of the amount paid by the Government for contract performance to subcontractors that are not similarly situated.
4. A list of all contracts within the purview of this memorandum that are priced above market rate but that the Department cannot terminate immediately. This should include a plan to terminate the contract within 90 days while still maintaining necessary services.
5. An updated budget for FY 2027, accounting for any action taken pursuant to this memorandum. The updated budgets should reflect a substantive reduction in contract spending, within the audited contracts, due to elimination of pass-through abuse and improper subcontracting practices.

All information must be provided to the DoW DOGE lead upon completion of this secondary review, but no later than February 28, 2026.