

GAO Highlights

Highlights of [GAO-17-291](#), a report to the Chairman, Committee on Armed Services, House of Representatives

Why GAO Did This Study

In fiscal year 2015, DOD obligated \$274 billion on contracts for products and services, a portion of which was for contracts that used incentive and award fee provisions—or incentive contracts—intended to improve cost, schedule, and technical performance outcomes. Work by GAO and others has shown that such contracts, when not well managed, can lead to unnecessary costs shouldered by the American taxpayer. Beginning in 2010, DOD made regulatory and policy changes related to incentives.

GAO was asked to review DOD's use of incentives. This report (1) identifies steps DOD has taken to improve its use of incentive contracts since 2010, and (2) assesses the extent to which selected DOD incentive contracts achieved desired acquisition outcomes.

To conduct this work, GAO reviewed relevant federal and DOD guidance; analyzed DOD obligations and new contract award data for fiscal years 2005 through 2015, before and after regulatory and policy changes; and analyzed a nongeneralizable sample of 26 contracts and task orders that contained incentives and 9 contract actions providing for award fees that were awarded between fiscal years 2011 and 2015 and reported as completed by the end of fiscal year 2015 to assess contract outcomes.

What GAO Recommends

DOD should identify the type of information on incentives needed and collect and analyze relevant data to assess outcomes. DOD agreed to do so and stated it will take actions in fiscal year 2018 to address GAO's recommendation.

View [GAO-17-291](#). For more information, contact Timothy J. DiNapoli at (202) 512-4841 or DiNapoliT@gao.gov.

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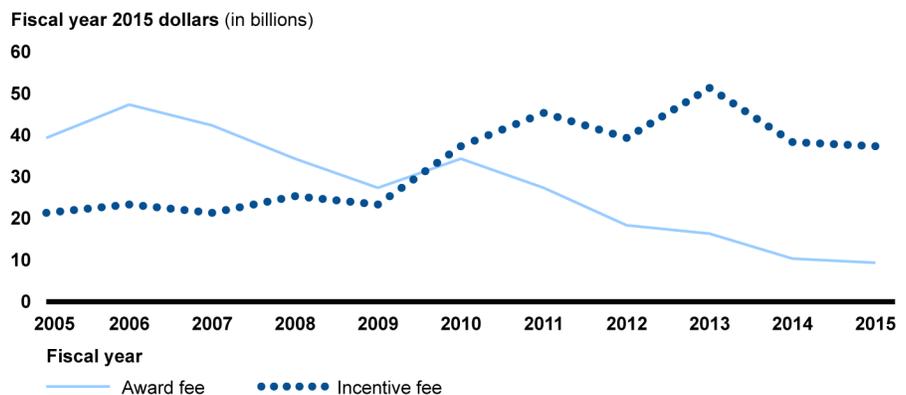
DEFENSE CONTRACTING

DOD Needs Better Information on Incentive Outcomes

What GAO Found

Since 2010, the Department of Defense (DOD) has made changes to its regulations, policies, and guidance and taken other steps to improve its use of incentive contracts. DOD has promoted greater use of objective incentives—which measure contractor performance toward predetermined targets using a formula—through incentive fee contracts, partly to better motivate cost control. These changes are reflected in DOD's increased use of incentive fee contracts and decreased use of award fee contracts, which involve fees paid based on a more subjective evaluation of contractor performance and have not always been linked to acquisition outcomes (see figure).

Department of Defense Obligations for Incentive Contracts, Fiscal Years 2005 through 2015



Source: GAO analysis of Federal Procurement Data System-Next Generation data. | GAO-17-291

Note: Dollars were adjusted for inflation using the fiscal year gross domestic product price index.

DOD expects to achieve cost objectives on 15 of the 21 incentive fee contract actions that GAO reviewed and for which costs could be assessed. GAO could not assess cost performance on five additional selected incentive fee contracts because comparable cost estimates were not available. Across the 21 incentive fee contract actions, estimated costs for the incentivized portions were about 5 percent below target costs. Schedule and technical performance incentives mostly resulted in good outcomes. In two cases, however, although the contractor met specific schedule and technical performance goals, overall outcomes were either unsatisfactory or not yet determined. In the nine award fee contracts GAO reviewed, consistent with prior GAO recommendations, DOD did not allow unearned fees to be earned in a subsequent period, and GAO did not find evidence of award fees paid for unsatisfactory performance. Federal regulations require DOD to collect and evaluate information on incentives. In 2015, DOD stopped its previous effort to manually collect data twice a year on incentives valued at more than \$50 million, which was burdensome and collected information that DOD did not use, according to DOD officials. GAO's review of current DOD systems found that they provide some useful data but do not allow DOD to determine how well incentives are achieving desired cost, schedule, and performance outcomes. Without such information, DOD may be disadvantaged in establishing incentive arrangements that achieve intended results.