DOD Should Comprehensively Assess How Its Policies Affect the Defense Industry

Congress and the Department of Defense (DOD) have changed the contract financing legislative and regulatory framework since DOD last performed a comprehensive assessment, including eliminating a requirement that contracting officers justify a need for contract financing and establishing a preference for performance-based payments. However, Defense Contract Management Agency data indicates that the amount of performance-based payments it administered fell from 2010 to 2016 (see figure).

DOD officials acknowledged that DOD has not comprehensively analyzed how its policies affect the defense industry since 1985. Industry and economic conditions, however, have since changed, including lower interest rates and the emergence of contractors who do not typically work with DOD. In August 2018, DOD proposed introducing performance-based elements into its process for setting progress payment rates. DOD officials stated that since the proposed rule focused on incentivizing contractors’ performance, they did not assess how it would affect defense contractor profitability or whether other financing or profit policies changes would be needed. DOD withdrew the proposed rule in October 2018. GAO’s Standards for Internal Control in the Federal Government call for organizations to monitor the effectiveness of their policies on a recurring basis. In December 2018, DOD officials acknowledged the need to do so. Until DOD conducts a comprehensive assessment and ensures they are done on a recurring basis, it will not be in a position to understand whether current or future contract financing policies are achieving their intended objectives.