



Highlights of [GAO-05-966](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

The Department of Defense (DOD) contracts with private sector companies to perform depot maintenance of weapon systems using performance-based logistics—that is, purchasing a defined level of performance over a defined time period at a fixed cost to the government. After implementing such contracts, program offices are to validate their efficacy using cost and performance data; DOD cannot otherwise ensure cost savings and improved performance are being achieved through the use of performance-based logistics. GAO was asked to review the implementation of performance-based logistics to determine whether DOD could demonstrate cost savings and improved responsiveness from these arrangements. In conducting its review, GAO analyzed the implementation of performance-based logistics arrangements for 15 weapon system programs.

What GAO Recommends

GAO recommended that DOD, to demonstrate whether performance-based logistics contracts are resulting in reduced costs and increased performance, develop procedures to track whether program offices validate their business case decisions and verify the reliability of contractor cost and performance data. DOD concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-966.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William Solis at (202) 512-8412 or solisw@gao.gov.

DEFENSE MANAGEMENT

DOD Needs to Demonstrate That Performance-Based Logistics Contracts Are Achieving Expected Benefits

What GAO Found

DOD program offices could not demonstrate that they have achieved cost savings or performance improvements through the use of performance-based logistics arrangements. Although DOD guidance on implementing these arrangements states program offices should update their business case analysis based on actual cost and performance data, only 1 of the 15 program offices included in GAO's review had performed such an update consistent with DOD guidance. In the single case where the program office had updated its business case analysis, it determined that the performance-based logistics contract did not result in expected cost savings and the weapon system did not meet established performance requirements. In general, program offices had not updated their business case analysis after entering into a performance-based logistics contract because they assumed that the costs for weapon system maintenance incurred under a fixed-price performance-based logistics contract would always be lower than costs under a more traditional contracting approach and because they lacked reliable cost and performance data needed to validate assumptions used. Furthermore, the Office of the Secretary of Defense has not established procedures to monitor program offices to ensure they follow guidance and update the business case analysis. Additionally, program officials said because of limitations in their own information systems, they typically relied on cost and performance data generated by the contractors' information systems to monitor performance-based logistics contracts. The program offices, however, had not determined whether contractor-provided data were sufficiently reliable to update their business case analysis. Although the Defense Contract Management Agency and the Defense Contract Audit Agency are most commonly used to monitor higher risk contracts, such as cost plus contracts, they are potential resources available to assist program offices in monitoring fixed-price performance-based contracts. In doing so, these DOD agencies have the capability to verify the reliability of contractors' information systems and collect cost and performance data needed to update their business case analysis. Until program offices follow DOD's guidance and update their business case analysis based on reliable cost and performance data, DOD cannot evaluate the extent to which performance-based logistics arrangements are achieving expected benefits and being effectively implemented within DOD.