



Highlights of [GAO-07-273](#), a report to the Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

Under time-and-materials contracts, payments to contractors are made based on the number of labor hours billed at hourly rates and, if applicable, other direct costs. Because of the risk they pose to the government, their use is supposed to be limited to cases where no other contract type is suitable. GAO was asked to identify trends in the Department of Defense's (DOD) obligations under time-and-materials contracts; analyze what DOD is buying under these contracts; assess why DOD is using them and whether actions are being taken to ensure that they are used only when no other contract type is suitable; evaluate DOD's monitoring of contractor performance; and determine the differences between the labor rates prime contractors bill DOD and the rates in their subcontracts. GAO reviewed 82 time-and-materials contracts, agreements, and orders and examined prime contract and subcontract labor rates on 12 additional contracts or agreements.

## What GAO Recommends

GAO is recommending that DOD require more diligence in justifying the use of certain types of time-and-materials contracts, analyze the use of time-and-materials on indefinite-quantity contracts to ensure that it does not become the default contract type, and require monitoring plans to reflect the risks inherent in this contract type. In written comments on a draft of this report, DOD concurred with the recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-07-273](http://www.gao.gov/cgi-bin/getrpt?GAO-07-273).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine V. Schinasi at (202) 512-4841 or [schinasi@gao.gov](mailto:schinasi@gao.gov).

## DEFENSE CONTRACTING

# Improved Insight and Controls Needed over DOD's Time-and-Materials Contracts

## What GAO Found

DOD's reported obligations under time-and-materials contracts increased from almost \$5 billion in 1996 to about \$10 billion in 2005. But this dollar amount is understated because DOD has not been coding contract type for orders placed under federal schedules (e.g., General Services Administration's schedule contracts). The accuracy of reported time-and-materials dollars should improve starting with fiscal year 2007 because DOD transitioned to the federal government's procurement information system, which requires contract type to be coded for every order.

Over 75 percent of DOD's reported time-and-materials obligations are concentrated in three service categories: professional, administrative, and management support services; information technology and communications; and equipment maintenance and repair. Over 80 percent of these obligations are against task orders. DOD is also using time-and-materials contracts to acquire contract services to supplement the government workforce. Examples include intelligence support, advisory and assistance services, and systems engineering.

DOD is turning to time-and-materials contracts because they can be awarded quickly and labor hours or categories can be adjusted if requirements are unclear or funding uncertain. Contracting officers' written determinations almost never included a rationale as to why a less risky contract type could not be used, and little attempt was made to convert follow-on work to a different contract type. Recent changes to federal acquisition regulations to allow for commercial services to be procured on a time-and-materials basis impose more stringent justification requirements, but most of the revisions do not apply to non-commercial procurements.

Even though time-and-materials contracts call for appropriate government monitoring of contractor performance, there were wide discrepancies in the rigor with which monitoring was performed and most of the contracts and orders GAO reviewed did not include documented monitoring plans. In general, monitoring was based on contractor-provided monthly status reports showing the contractor's activities and amount of funds expended.

Under some time-and-materials contracts, the prime contractor charged DOD at prime contract hourly rates for subcontracted labor. According to the Defense Contract Audit Agency, this practice can result in the prime contractor earning additional profits. GAO's analysis of billing rates under 13 contracts and agreements showed that when the prime contractor charged prime contract hourly rates for subcontracted labor, the difference between the prime's rates and those in their subcontracts ranged from negative 40 percent to 192 percent, with most in the 6 to 53 percent range. Recent revisions to federal acquisition regulations will mitigate this practice for certain types of acquisitions.