

GAO Highlights

Highlights of [GAO-18-530](#), a report to the Chairman, Committee on Armed Services, House of Representatives

Why GAO Did This Study

DOD buys goods and services from the commercial market to take advantage of new innovations and save on acquisition costs. However, the department's process for determining whether an item can be purchased commercially—and, at a fair and reasonable price—can be long and challenging in certain situations.

GAO was asked to review this process. This report identifies (1) factors that influenced DOD's commercial item and price reasonableness determinations, and (2) the extent to which DOD has taken steps to make information available to facilitate these determinations.

To conduct this work, GAO examined federal regulations and guidance and selected case studies, which included a non-generalizable sample of 15 contracts awarded between fiscal years 2010 and 2018. GAO identified the case studies based on input from multiple sources that those contracts involved commercial item or price reasonableness determination challenges. GAO interviewed government and contractor officials responsible for those contracts.

What GAO Recommends

GAO recommends that DOD develop a strategy for how information related to commerciality and price reasonableness determinations should be shared across the department, including making improvements to the existing database and determining responsibilities for its funding and upkeep. DOD agreed with GAO's recommendation and stated that actions will be taken starting in 2018 to address it.

View [GAO-18-530](#). For more information, contact William T. Woods at (202) 512-4841 or woodsw@gao.gov.

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DEFENSE CONTRACTS

Improved Information Sharing Could Help DOD Determine Whether Items Are Commercial and Reasonably Priced

What GAO Found

The Department of Defense (DOD) has a process to determine if an item is available for purchase in the commercial marketplace at a reasonable price. Among selected case studies, GAO found four interrelated factors, each with its set of challenges that influenced how and whether DOD determines if an item is commercial and if its price is reasonable. These factors are:

- **Availability of marketplace information:** Market research is a key component that informs commercial item and price reasonableness determinations. However, GAO found that obtaining market-related information can be challenging because the products DOD requires may not be widely available in the commercial marketplace.
- **Ability to obtain contractor data:** When adequate market information is not available, DOD officials turn to the contractor for information to support the commercial item determination or data to make a price reasonableness determination. In the case studies GAO reviewed, most contractors provided relevant information, but not without delays and challenges. For example, while pricing data is key to DOD's ability to determine price reasonableness, several contracting officers reported that contractors were less willing to provide this data once an item was determined commercial.
- **Extent of modifications to an item:** When a commercial item must be modified to meet DOD's requirements, DOD officials may have to take additional steps, such as completing a comparative analysis of commercial items to the modified item. For example, in one case, a commercial navigation system had to be modified to withstand an explosion. To make the commercial item determination DOD officials had to make an on-site visit to the manufacturer to gain in-depth understanding of the services provided and to ensure they met DOD requirements.
- **Reliability of prior commercial item determinations:** Contracting officers may presume that an item is commercial if a DOD component had previously made that determination. However, GAO found that, in some cases, contracting officers reviewing a prior determination discovered that it was based on inaccurate information.

DOD has taken steps to share more information across the department to inform these determinations, but efforts are in early stages of development or informal. No comprehensive information sharing strategy exists. In 2016, DOD established the Commercial Item Group within the Defense Contract Management Agency to provide recommendations on commercial item determinations. This group created a publicly available database to centralize commercial item information across DOD. However, this effort is incomplete. Also, according to DOD officials, they have not yet established who is responsible for the funding and upkeep of the information. Additionally, GAO case studies included instances where informal information sharing resulted in better outcomes, such as a lower price. Creating more opportunities to share information internally is crucial for DOD to facilitate a timely and efficient process in making these determinations and ensuring the best financial outcome for the government.