

# GAO Highlights

Highlights of [GAO-19-406](#), a report to congressional committees

## Why GAO Did This Study

Each year, DOD provides contractors with billions of dollars in contract financing on fixed-price contracts for major weapons systems and other long-term efforts. Contract financing helps contractors manage expenses until they begin delivering the contracted items to DOD. Contract financing can take several forms, including

- progress payments based on the cost incurred by the contractor, and
- performance-based payments, in which the government pays the contractor an agreed-to amount for achieving certain milestones.

DOD last performed a comprehensive assessment of its contract financing policies in 1985.

The Conference Report accompanying the Fiscal Year 2019 National Defense and Authorization Act included a provision for GAO to analyze the level of financing currently provided to contractors, among other things. This report (1) describes changes in DOD contract financing policy since 1985 and (2) assesses the extent to which DOD has analyzed the effect of its contract financing policies on the defense industry. GAO assessed relevant legislation and DOD regulations; obtained data on DOD's use of progress and performance-based payments from fiscal years 2010 through 2018; and interviewed cognizant DOD and industry officials.

## What GAO Recommends

GAO recommends that DOD ensure it conducts a comprehensive assessment of the effect that its contract financing and profit policies have on the defense industry and update that assessment on a recurring basis. DOD concurred with the recommendation.

View [GAO-19-406](#). For more information, contact Timothy J. DiNapoli at (202) 512-3665 or [dinapolit@gao.gov](mailto:dinapolit@gao.gov)

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## CONTRACT FINANCING

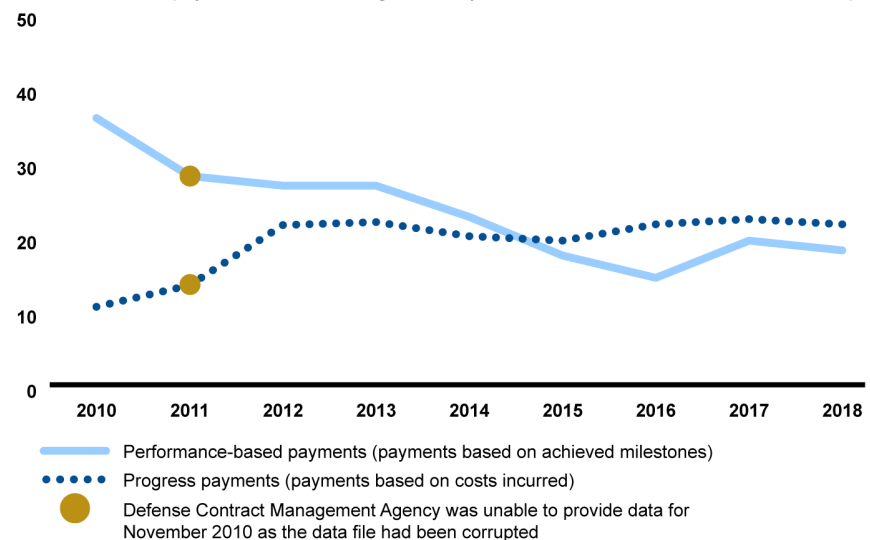
### DOD Should Comprehensively Assess How Its Policies Affect the Defense Industry

#### What GAO Found

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).

#### Defense Contract Management Agency Progress and Performance-Based Payments Data, Fiscal Years 2010 through 2018 (in fiscal year 2018 dollars)

Dollars in billions (adjusted for inflation using the fiscal year 2018 Gross Domestic Product Price Index)



Source: DOD data from Mechanization of Contract Administration Services (MOCAS). | GAO-19-406

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.