GAO Highlights

Other Transaction Agreements

Improved Contracting Data Would Help DOD Assess Effectiveness

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A report to congressional committees

For more information, contact: Mona Sehgal at Sehgalm@gao.gov.

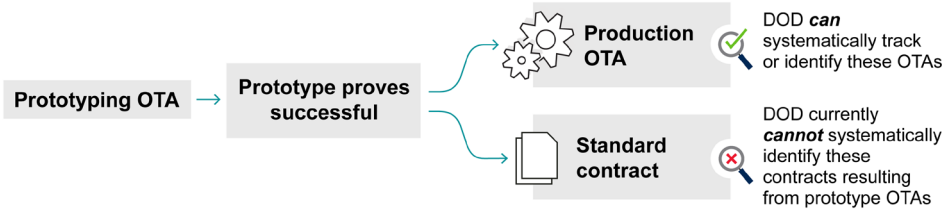
What GAO Found

The Department of Defense (DOD) can use a contracting mechanism known as an "other transaction agreement," or OTA, to develop prototypes. Rather than using standardized federal acquisition terms and conditions, OTAs rely on DOD contracting officials to customize the terms and conditions they deem necessary to protect the government's interests. This flexibility may help DOD attract nontraditional defense contractors that otherwise may not choose to contract with DOD. However, this flexibility could also increase risk, such as by reducing oversight of contractors' costs.

After DOD successfully develops a prototype, it may produce it on a larger scale by awarding either (1) another OTA—known as a production OTA, or (2) a standard contract, which is subject to the Federal Acquisition Regulation.

In fiscal year 2024, DOD's prototype OTA obligations totaled over $16 billion. However, DOD does not know the extent to which these prototype OTAs directly resulted in production awards. DOD systematically tracks production OTAs, reporting $2 billion in production OTA use in fiscal year 2024. However, DOD does not similarly track standard contracts for production that resulted from prototype OTAs. Without a systematic process to track these data, DOD cannot assess the extent to which OTAs are delivering capabilities to the warfighter.

Depiction of the Transition of Prototype Other Transaction Agreements (OTA) into Production, as of June 2025



Source: GAO analysis of Department of Defense (DOD) information. | GAO-25-107546

Ten of GAO's 18 selected weapon systems that used prototype OTAs planned to switch to standard contracts for production. DOD officials said that while they saw benefits of OTA flexibilities during the prototyping phase, such as collaboratively working with contractors on the statements of work, they used standard contracts during the production phase to help mitigate risks. For example, officials said that standard contracts can help increase DOD's insight into contractor costs and reduce the risk of overpayment.

Moreover, DOD officials told GAO that like any procurement approach, OTAs offer different advantages and disadvantages, and do not ensure successful outcomes. DOD officials added that a well-written OTA cannot compensate for a poorly planned acquisition. DOD officials stated they are collecting lessons learned associated with transitioning prototype OTAs into production.

Why GAO Did This Study

DOD obligations through OTAs for prototyping and production have significantly increased, growing from $1.8 billion in fiscal year 2016 to over $18 billion in fiscal year 2024. The current administration has also encouraged the use of OTAs, particularly for defense acquisitions. Prior GAO and DOD Inspector General reports found that data challenges limited DOD's visibility into the use of OTAs, including the extent to which nontraditional defense contractors were participating.

A Conference report includes a provision for GAO to review DOD's use of OTAs. GAO's report examines (1) the extent to which DOD used prototype OTAs and the data it collects to determine their effectiveness, and (2) how selected DOD weapon system development efforts using prototype OTAs planned to transition into production.

To do this work, GAO analyzed OTA data from fiscal years 2021 through 2024 and compared these data against DOD's reports to Congress. GAO reviewed a nongeneralizable sample of 18 weapon systems using prototype OTAs. GAO selected the sample from two DOD components that accounted for a majority of OTA use, based on GAO's annual assessments of DOD's major weapon systems. GAO also interviewed contracting officials from DOD components.

What GAO Recommends

GAO is making two recommendations, including that DOD should develop and implement a systematic process to track standard contracts for production that resulted from prototype OTAs. DOD agreed with both recommendations.