



DOD Has Increased its Use of Fixed-Price Incentive Contracts, but is it Getting Better Outcomes?

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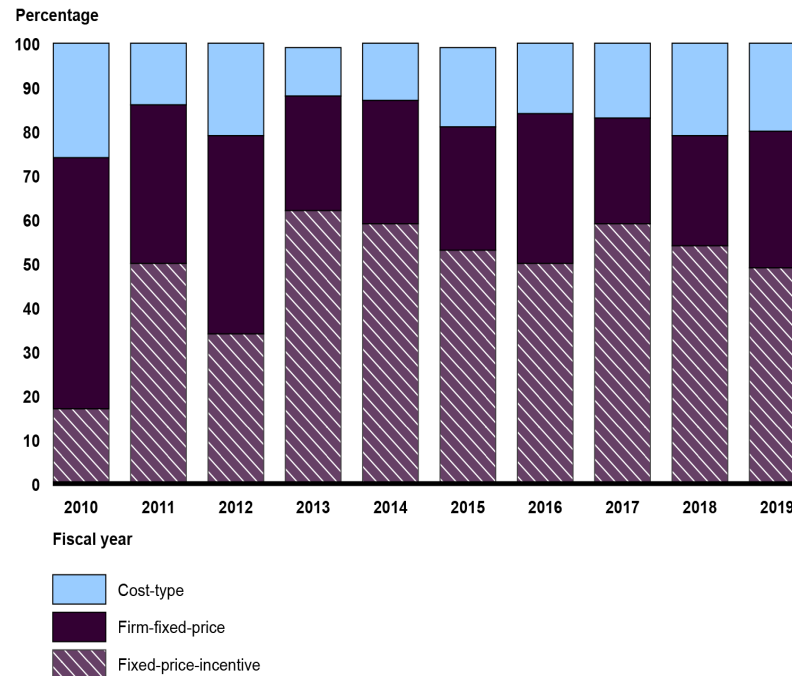
Report Objectives, Scope, and Methodology

- This report examines (1) the extent to which DOD has awarded fixed-price incentive (FPI) contracts associated with major defense acquisition programs (MDAP) from fiscal years 2010 through 2019, and (2) the factors that influenced DOD's decision to use FPI contracts and the extent to which DOD assesses their use, among other objectives.
 - GAO analyzed government contracting data by contract type for fiscal years 2010 through 2019 on contracts for 101 MDAPs. GAO further analyzed a non-generalizable sample of 12 contracts including six FPI and six firm-fixed-price (FFP) (two of each type from each of the three military departments); conducted file reviews; reviewed policy documentation; and interviewed DOD officials.
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Finding 1: DOD Obligations on FPI Contracts for MDAPs Increased Over the Past 10 Years, While Use Across Military Departments Varied

- Over a 10-year period (FY10-19), DOD's obligations on FPI contracts associated with MDAPs grew to account for almost half of the \$65 billion in obligations for fiscal year 2019. Specifically, obligations on FPI contracts for MDAPs increased from \$1.3 billion, or 17 percent, in fiscal year 2010 to \$32 billion, or 49 percent, in fiscal year 2019. The obligations on FFP contracts decreased, and obligations on cost-type contracts fluctuated between 11 percent and 26 percent during the same time period.

Percentage of Obligations by Contract Type for Major Defense Acquisition Programs from Fiscal Years 2010 through 2019





The frequency of the use of FPI contract types varied across military departments for the 10-year period from fiscal years 2010 through 2019

- During this period, DOD awarded 374 contracts associated with MDAPs and 86 of those, or 23 percent, were FPI contracts.
 - While the Army awarded fewer contracts associated with MDAPs, it also used FPI contracts less frequently than the Air Force and the Navy as a percentage of the total contracts awarded in the selected time period.
 - For the 10-year period, the Navy had the largest proportion of FPI contracts at 29 percent. 23 percent of the Air Force contracts were FPI. In comparison, 15 percent of the Army's contracts were FPI.
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Finding 2: DOD Guidance and Other Factors Influenced the Use of Selected FPI Contracts, but Use Has Not Been Assessed

- Based on our review of 12 selected fixed-price-type contracts and interviews with DOD officials, we found that a variety of factors influenced contract type selection.
 - For the 6 FPI contracts, we found that reasons for using this contract type were often related to addressing cost concerns.
 - For our 6 selected FFP contracts, we found that these contracts were often used when the program was mature and well into production, where requirements and costs were understood.
 - Although the Better Buying Power initiatives encouraged the use of FPI contracts, and the use of FPI contracts has increased over the past 10 years, DOD has not assessed the extent to which its use of FPI contracts has helped achieve desired cost and schedule performance outcomes.
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Conclusions and Recommendations

- DOD and Congress have encouraged or facilitated the use of fixed-price-type contracts, and specifically FPI contracts that use share lines and other incentives to encourage better cost and schedule performance. DOD's obligations on FPI contracts associated with MDAPs have grown over the past 10 years. However, the Department has not assessed its use of FPI contracts, which makes it difficult to determine if this contract type is helping to achieve the desired cost and schedule performance outcomes at an agency-wide level.
 - The Secretary of Defense should conduct an assessment of DOD's use of FPI contracts for MDAPs, including the extent to which share lines and other contract elements contributed to achieving desired cost and schedule performance outcomes.
 - See GAO-21-181 for additional details. <https://www.gao.gov/products/gao-21-181>
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