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DOD Has Increased Its Use of Fixed-Price Incentive Contracts, but Is It Getting Better Outcomes?

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Abstract

Department of Defense (DoD) guidance encourages the use of fixed-price-incentive contracts to acquire major weapon systems, where appropriate. These contracts can provide contractors with incentives to keep costs in check and stay on schedule. This presentation looks at (1) the extent to which the DoD has awarded fixed-price incentive contracts associated with Major Defense Acquisition Programs from Fiscal Years 2010 through 2019, and (2) the factors that influenced the DoD's decision to use fixed-price incentive contracts and the extent to which the DoD has assessed their use, among other objectives.

Background

The Department of Defense (DoD) spends billions of dollars annually using fixed-price-type contracts to acquire its major defense acquisition programs (MDAPs), among other things. In 2010, the DoD's Better Buying Power guidance encouraged the use of fixed-price-incentive (FPI) contracts as a way to obtain greater efficiency and productivity in defense spending.

Report Objectives, Scope, and Methodology

Congress included a provision in statute for the GAO to report on the DoD's use of fixed-price-type contracts, including FPI. This report examines (1) the extent to which the DoD has awarded FPI contracts associated with MDAPs from Fiscal Years 2010 through 2019, and (2) the factors that influenced the DoD's decision to use FPI contracts and the extent to which the DoD assesses their use, and (3) the extent to which the DoD has faced challenges in closing out fixed-price-type contracts.

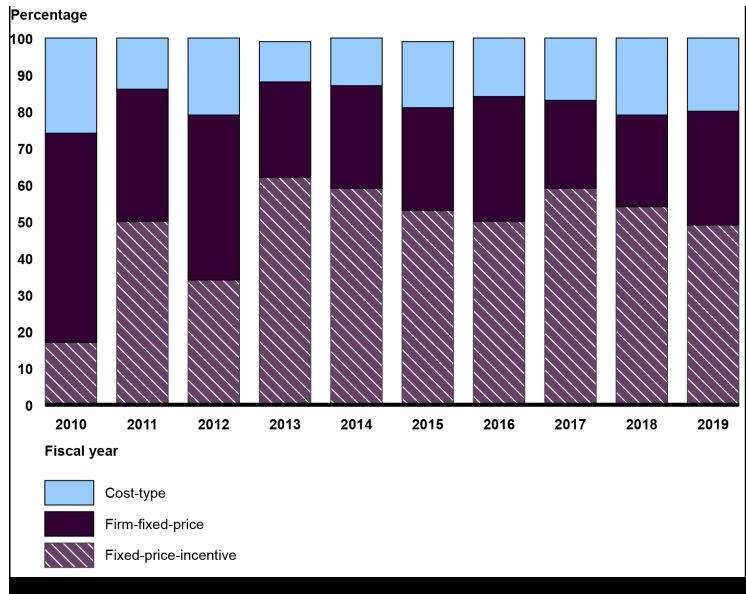
The GAO analyzed government contracting data by contract type for Fiscal Years 2010 through 2019 on contracts for 101 MDAPs. The GAO further analyzed a non-generalizable sample of 12 contracts including six FPI and six firm-fixed-price (two of each type from each of the three military departments); conducted file reviews; reviewed policy documentation; and interviewed DoD officials.

Summary

The DoD has encouraged the use of FPI contracts where appropriate. These contracts can provide defense contractors with a profit incentive for effective cost control and performance depending on how they are structured. Over the 10-year period from Fiscal Years 2010 through 2019, obligations on FPI contracts for MDAPs grew to account for almost half of the \$65 billion in obligations for Fiscal Year 2019.



Percentage of Obligations by Contract Type for Major Defense Acquisition Programs From Fiscal Years 2010 Through 2019



Source: GAO (2021).

DoD guidance, including Better Buying Power initiatives, influenced the DoD’s use of FPI contracts over the last decade for the selected contracts the GAO reviewed. In addition, when selecting a contract type, contracting officers also considered factors including the availability of cost or pricing data, previous experience with the contractor, and the previously used contract type. The DoD has not assessed the extent to which use of FPI contracts has contributed to achieving desired cost and schedule performance outcomes.

See GAO-21-181 for additional details.

<https://www.gao.gov/products/gao-21-181>

References

GAO. (2021). *Fixed-price-incentive contracts: DoD has increased their use but should assess contributions to outcomes* (GAO-21-181). <https://www.gao.gov/products/gao-21-181>





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