



Highlights of [GAO-12-558](#), a report to Subcommittee on Readiness, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

DOD spends billions annually to maintain its weapon systems and, at times, uses long-term maintenance contracts with a potential period of performance of 5 years or more. These contracts can encourage contractors to invest in new facilities, equipment, and processes, but may hinder DOD's ability to incentivize contractors' performance and control costs, especially in the absence of a competitive environment or if DOD does not acquire access to technical data that can enable DOD to select an alternative maintenance provider.

GAO was asked to evaluate (1) the extent to which DOD uses long-term maintenance contracts, (2) DOD's ability to select alternative maintenance providers, and (3) how these contracts have been structured to incentivize performance and manage cost. GAO reviewed a nongeneralizable sample of 10 long-term contracts to illustrate different maintenance approaches. GAO interviewed program officials and reviewed contract documentation. GAO also reviewed information on eight programs recently reviewed by DOD to determine how these programs addressed technical data needs.

## What GAO Recommends

GAO recommends that DOD collect information on the extent to which DOD uses long-term maintenance contracts and develop lessons learned regarding the use of incentives and cost-control tools. DOD concurred with each of the recommendations and indicated that it would develop methodologies to implement them.

View [GAO-12-558](#). For more information, contact Belva M. Martin at (202) 512-4841 or [martinb@gao.gov](mailto:martinb@gao.gov) or Cary Russell at (202) 512-5431 or [russellc@gao.gov](mailto:russellc@gao.gov).

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## DEFENSE ACQUISITIONS

### Further Action Needed to Improve DOD's Insight and Management of Long-term Maintenance Contracts

## What GAO Found

At the departmental level, neither the Department of Defense (DOD) nor the individual military departments know the extent to which weapon system programs rely on long-term maintenance contracts. DOD policy requires DOD and the military departments to approve acquisition strategies and lifecycle sustainment plans, which include information on contractor support, but DOD officials reported that they do not collect information on the use of long-term contracts. DOD's limited visibility over long-term maintenance contracts reflects broader DOD challenges with managing services acquisition. GAO's past work has identified the need for DOD to obtain better data on its contracted services to enable it to make more strategic decisions. DOD is considering a number of policy- and data-related initiatives that could improve its knowledge of these contracts, but these efforts are in the early stages of development.

Decisions made early in the acquisition process can limit DOD's ability to select alternative maintenance providers over the life cycle of a weapon system program. Program officials believed that DOD had the ability to select alternative service providers for half of the contracts GAO reviewed, as DOD either had sufficient technical data or there was an existing competitive environment. DOD officials believed the lack of technical data, funding, or expertise would hinder them from selecting alternative service providers on the other contracts GAO reviewed. Recent legislation and DOD's 2010 efficiency initiatives emphasize the importance of technical data considerations. GAO found that eight weapon systems that underwent DOD acquisition-related reviews between October 2010 and October 2011 considered technical data issues, but not all have determined the extent to which they will acquire these data or the cost to do so.

Once the decision is made to use long-term contracts, DOD faces choices on how to best incentivize contractor performance and manage costs. GAO found that the 10 long-term maintenance contracts reviewed varied in terms of the incentives employed and tools used to gain insight into contractor costs. For example, GAO found that all 5 contracts with the longest durations, potentially ranging from 9 to 22 years, used monetary incentives such as award or incentive fees, or contract term incentives that can extend the life of the contract by several years. However, DOD and program officials expressed some concerns about the lack of insight on contractors' costs. In two cases, program offices established fixed prices for the entire potential length of the 9- and 15-year contracts without the ability to renegotiate prices or obtain incurred cost data. In comparison to the contracts with the longest durations, the five contracts GAO reviewed with maximum lengths of 5 years made less use of incentives or cost-control tools and generally did not have the ability to renegotiate contract prices, but program officials believed that the shorter-term nature of the contracts mitigated some of their risks. DOD does not collect information concerning the effectiveness of the various incentives or cost control tools used on long-term maintenance contracts, but it has identified efforts made by individual programs to improve acquisition of maintenance services. Developing lessons learned on what incentives and cost-control tools work best would help inform future acquisition strategies and reduce risk.