

# GAO Highlights

Highlights of [GAO-22-105007](#), a report to congressional committees

## Why GAO Did This Study

The COVID-19 pandemic had unprecedented effects on the U.S. economy, including the contractors that develop and build weapon systems for DOD. One of the actions DOD took to help ensure the financial health of the defense industrial base was to increase cash flow to contractors and, in turn, their suppliers.

Congress included a provision for GAO to examine DOD's oversight of these increased payments. This report assesses (1) the extent to which DOD made increased progress payments and advance payments from April 2020 through June 2021 and (2) the extent to which DOD has visibility into how those payments flowed to suppliers.

GAO analyzed data on advance and progress payments, reviewed acquisition regulations and policies, and met with officials from responsible DOD offices and representatives from contractors and industry groups.

## What GAO Recommends

GAO recommends that DOD determine what data would be needed to assess defense prime contractors' use of any additional contract financing that could be provided during future national emergencies, including their use of these funds to support their suppliers, and identify steps to collect that data. DOD concurred with the recommendation.

View [GAO-22-105007](#). For more information, contact Timothy J. DiNapoli at (202) 512-4841 or [dinapolit@gao.gov](mailto:dinapolit@gao.gov).

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## DEFENSE CONTRACTING

### More Insight into Use of Financing Payments Could Benefit DOD in Future Emergencies

## What GAO Found

As defense contractors build weapon systems like aircraft or ships that are both time- and capital-intensive, the Department of Defense (DOD) in certain cases provides contract financing along the way in the form of progress or advance payments. Progress payments can be based on costs incurred by the contractor or the amount of work accomplished. On the other hand, advance payments are funds provided to the contractor before work begins. During the COVID-19 pandemic, DOD took steps to increase the progress payment rates for eligible contracts, from 80 to 90 percent on contracts awarded to large businesses and from 90 to 95 percent on contracts awarded to small businesses. In addition, DOD made some advance payments. As a result, from April 2020 through June 2021, beyond its normal financing activities, it is estimated that DOD provided more than \$6 billion in additional financing to help lessen the economic impact of COVID-19 on the defense industrial base (see table).

**Department of Defense's Use of Progress and Advance Payments to Address COVID-19 Impacts on the Defense Industrial Base, April 2020 through June 2021 (in billions)**

Payment type	Total payments made	Estimated amount of additional payments made to address COVID-19 impacts	Percent made to address COVID-19 impacts
Progress payments	\$55.0	\$5.6	10
Advance payments	\$0.9	\$0.8	89

Source: GAO analysis of Department of Defense data. | GAO-22-105007

DOD set these higher rates to increase cash flow to the defense industrial base during the pandemic. DOD, which does not have privity of contract with subcontractors, has little insight into the extent to which prime contractors provided these additional funds to their suppliers. DOD officials said they generally relied on their typical oversight processes. These processes include the use of standard forms that contractors submit to request additional contract financing. These forms, however, are not designed to and do not provide comprehensive visibility into whether contract financing payments were flowed down to suppliers. Further, while DOD requested information from 28 contractors on the use of these additional funds, the resulting information provided limited insight into the flow of funds to suppliers. The Navy, which is responsible for oversight on shipbuilding contracts, worked with the Defense Contract Audit Agency to review how shipbuilders flowed the COVID-19-related funds to suppliers and found that some paid their suppliers more quickly than usual.

If DOD were to again increase contract financing rates to address cash flow challenges faced in future emergencies, more information on whether prime contractors are providing these funds to their suppliers, would help ensure that the funds were having their intended effect of mitigating impacts on the defense industrial base.