

# Types of Federal Procurement Contracts

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## Types of Federal Procurement Contracts

Federal agencies use procurement contracts to purchase goods and services from the private market to carry out their missions. A key element of federal procurement is the selection of a contract type by a contracting officer. Contracting officers have a variety of contract types available to provide the flexibility needed to support agency missions. Contract types vary in the proportion of cost risk assumed by the contractor versus the government and the types of incentives offered to contractors for controlling costs, meeting deadlines, or performance goals. The Federal Acquisition Regulation (FAR) and its agency supplements provide uniform policies for the selection of contract types within the executive branch. Part 16 of the FAR describes the types of contracts that the federal government may use in acquisitions and provides policies, procedures, and guidance for selecting a contract type. The four most commonly used federal procurement contracts are: fixed-price, cost-reimbursement, incentive, and indefinite-delivery.

A **fixed-price contract** is a category of contracting in which the government sets a price for a good or service and the vendor's profit varies depending on costs. There are six subcategories of fixed price contracts: (1) firm-fixed price; (2) fixed-price with economic price adjustment; (3) fixed-price incentive; (4) fixed-price with prospective price redetermination; (5) fixed-ceiling-price with retroactive price redetermination; and (6) firm-fixed-price with a level-of-effort term. The government chooses fixed-price contracts when it wants to minimize the risk to the government and align contractor profit motive with the government's interests. However, a fixed-price contract may not be appropriate when the contract's price and risk cannot be adequately predicted, and/or the program being contracted for is technically complex.

Compared to a fixed-price contract, which uses a pre-set contract cost, a **cost-reimbursement contract** reimburses the contractor for any allowable incurred costs. There are five subcategories of cost-reimbursement contracts: (1) cost, (2) cost-sharing, (3) cost-plus-incentive-fee, (4) cost-plus-award-fee, and (5) cost-plus-fixed-fee. A contracting officer selects a **cost-reimbursement contract** when they cannot determine the contract's requirements or cost sufficiently to use a fixed-price contract. Contractors assume less financial risk when operating under a cost-reimbursement contract. The FAR states that cost-reimbursement contracts provide vendors "only a minimum incentive to control costs" and thus provides specific instructions and restrictions on their use.

An **incentive contract** contains additional incentives for vendors to attain certain goals, and are either fixed-price or cost-reimbursement contracts. A contracting officer may opt for an incentive contract to encourage contractors to meet certain cost or delivery performance targets.

An **indefinite-delivery** contract or indefinite-delivery vehicle (IDV) is a contract that has been awarded to one or more vendors to facilitate the delivery of supply and service orders. IDVs may be used to acquire supplies or services when the exact times or exact quantities of future deliveries are not known at the time of contract award. There are three types of indefinite delivery contracts: (1) definite-quantity; (2) requirements; and (3) indefinite delivery, definite-quantity. Once an IDV has been established, an agency may place task orders for services and delivery orders for supplies to fulfill a need. The FAR also lists other miscellaneous contracts, including time-and materials, labor-hour, and letter contracts.

President Trump issued two executive orders (E.O.) during his second term that may affect the selection of contract types. In March 2025, President Trump issued E.O. 14240 titled "Eliminating Waste and Saving Taxpayer Dollars by Consolidating Procurement," which directs agencies to make greater use of General Services Administration (GSA) governmentwide IDVs. In April 2025, President Trump issued E.O. 14275 titled "Restoring Common Sense to Federal Procurement," which directs the Federal Acquisition Regulatory Council (FAR Council), to "amend the FAR to ensure that it contains only provisions that are required by statute or that are otherwise necessary to support simplicity and usability, strengthen the efficacy of the procurement system, or protect economic or national security interests." The administration has referred to this effort as the "FAR Overhaul."

Congress has the constitutional authority to appropriate funds and conduct oversight over government contracting practices. As such, Congress has often sought to encourage cost-effective and efficient contracting mechanisms to help the government acquire high-quality goods and services that serve taxpayers' interests. As part of its oversight and legislative functions, Congress may consider (1) how the current statutory preference for fixed-price contracting may affect high risk acquisitions, (2) the potential impacts of the second Trump Administration's ongoing FAR Overhaul on Part 16 of the FAR, and (3) the operational impacts of agencies increasing their contract spending towards General Services Administration (GSA) IDVs.



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## Introduction

Federal agencies use procurement contracts to buy what they need to carry out their missions. Agency acquisitions include things as varied as information technology services, drugs, automobiles, and guided missiles. In FY2024, the U.S. government spent over \$750 billion on procurement contracts, and according to the General Services Administration (GSA), is the “largest buyer of goods and services in the world.”<sup>1</sup> The Department of Defense (DOD), which is “using a secondary Department of War designation,” under Executive Order 14347 dated September 5, 2025, spent approximately 60% of these federal procurement dollars (see **Figure 1**).

Congress has the constitutional authority to appropriate funds and conduct oversight over government contracting practices. As such, Congress has often sought to encourage cost-effective and efficient contracting mechanisms to help the government acquire high-quality goods and services that serve taxpayers’ interests. As the executive branch proposed major changes to federal acquisition regulation in the past year, Congress may consider the degree to which it chooses to exercise statutory oversight of government acquisition processes.<sup>2</sup>

Procurement statutes codified in Titles 10 and 41 of the *U.S. Code* shape a range of federal contract types. Additionally, the Federal Acquisition Regulation (FAR) and its agency supplements, such as the Defense Federal Acquisition Regulation Supplement (DFARS), provide uniform policies for the selection of contract types within the executive branch.<sup>3</sup> A contracting officer’s selection of a contract type is a key element of federal procurement.

Contracting officers are individuals within government agencies responsible for negotiating a variety of contract types. While statute or regulation may require or prohibit the use of certain contract types in specified circumstances, the selection of a contract type is typically a matter for negotiation and relies on the professional judgement of the contracting officer.

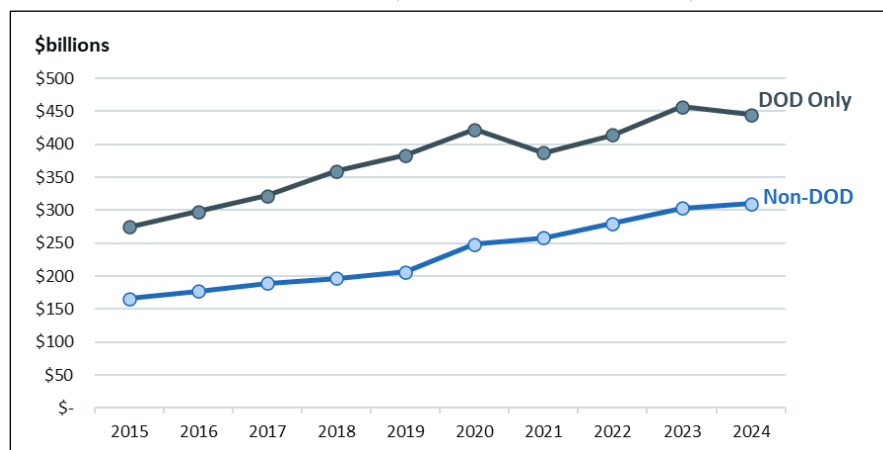
This report summarizes the major categories of contracts described in the FAR Part 16 and DFARS. It also provides contract obligation breakdowns by different contract types, including defense vs. non-defense breakdowns given the large amount of contract obligations awarded to DOD (see **Figure 1**). Finally, it discusses the advantages and drawbacks of each major category of contracts, as well as potential issues for Congress.

<sup>1</sup>Government Accountability Office, “A Snapshot of Government-Wide Contracting for FY 2024,” (June 24, 2025), <https://www.gao.gov/blog/snapshot-government-wide-contracting-fy-2024-interactive-dashboard>. GSA, Federal Acquisition Policy Division, (Aug. 24, 2024), <https://www.gsa.gov/policy-regulations/policy/acquisition-policy/office-of-acquisition-policy/governmentwide-acq-policy/federal-acquisition-policy-division>.

<sup>2</sup> For more information on executive branch actions concerning acquisition over the last year, see CRS Insight IN12600, *Defense Acquisition Reform: Executive and Legislative Branch Actions*, by Alexandra G. Neenan.

<sup>3</sup> The FAR is codified in title 48, Parts 1-53 of the *Code of Federal Regulations*, and agency supplements are codified in separate chapters of the *Code of Federal Regulations*. The DFARS is found in Chapter 2 of Title 48 of the *Code of Federal Regulations*.

**Figure 1. DOD vs Non-DOD Agency Total Contract Obligations**  
FY2014-FY2024 (Billions of Nominal Dollars)



**Source:** CRS analysis of contract data from the Federal Procurement Data System (FPDS), 10/1/2014 through 9/30/2024.

**Notes:** The FPDS data do not include Other Transaction Agreement (OTA) obligations. OTAs are not subject to the same reporting requirements as procurement contracts.

## Overview of Federal Procurement Statutes and Regulations

The primary statutes governing contemporary federal procurement are the Armed Services Procurement Act of 1947<sup>4</sup> and the Federal Property and Administrative Services Act of 1949,<sup>5</sup> codified in Titles 10 and 41 of the *U.S. Code*. While Title 41 addresses general federal procurement policy, Title 10 addresses DOD-specific policies. DOD is to follow Title 41 unless otherwise specified in statute. A number of other statutes might also apply to agency procurements, and Congress regularly shapes procurement policy through appropriations acts and national defense authorization acts.

The executive branch uses the FAR and the DFARS—DOD’s supplement to the FAR—to guide implementation of procurement provisions in Titles 10 and 41.<sup>6</sup> The FAR applies to procurement contracts, contracts through which appropriated funds are used to acquire supplies or services for the direct use of the United States.<sup>7</sup> Transactions not subject to the FAR include

- grants and cooperative agreements;<sup>8</sup>
- “other transactions”;

<sup>4</sup> P.L. 80-413, 62 Stat. 21 (1948) (codified as amended throughout Title 10 of the *U.S. Code*).

<sup>5</sup> P.L. No. 81-152, 63 Stat. 377 (1949) (codified as amended throughout Title 41 of the *U.S. Code*).

<sup>6</sup> For more information, see CRS Report R42826, *The Federal Acquisition Regulation (FAR): Answers to Frequently Asked Questions*, by David H. Carpenter, Matthew D. Trout, and Dominick A. Fiorentino.

<sup>7</sup> 31 U.S.C. §6303 and 48 CFR §2.101. For more information about the applicability of the FAR to certain agencies and purchases, see CRS Report R42826, *The Federal Acquisition Regulation (FAR): Answers to Frequently Asked Questions*, by David H. Carpenter, Matthew D. Trout, and Dominick A. Fiorentino.

<sup>8</sup> FAR §2.101. For definitions of grants and cooperative agreements, see 31 U.S.C. §§6302-6305 and 2 C.F.R. 200.1.

- purchases or leases of real property;<sup>9</sup> and
- transactions where Congress has authorized a government entity to acquire goods or services “notwithstanding any other provision of law.”<sup>10</sup>

The FAR establishes uniform policies and procedures for acquisitions by executive branch agencies. The FAR also delineates standard contract clauses and prescribes when the clauses are to be included or incorporated by reference in a particular procurement contract. Depending on the type of contract an agency uses, different FAR clauses will apply. The incorporated FAR clauses establish the terms of an agreement between the government and a contractor and serve to protect the government’s interests. Contracting officers have a certain degree of discretion when structuring a contract in order to tailor it to the government’s needs. Certain FAR clauses are required to be incorporated into all contracts of a certain type, whereas others might only be included as applicable.<sup>11</sup>

Part 16 of the FAR describes the types of contracts that the federal government may use in acquisitions and provides policies, procedures, and guidance for selecting a contract type.<sup>12</sup> Part 216 of the DFARS also lists several DOD-specific contracting policies and procedures for some of the contract types listed in the FAR.<sup>13</sup> Under certain circumstances, DOD also may use acquisition strategies or methods not governed by the FAR or DFARS, such as Other Transaction Authorities (OTA). DOD’s Defense Acquisition University (DAU) defines the three broad categories of non-FAR acquisition authorities as OTA, Procurement for Experimental Purposes Authorities, and Research and Development Agreements Authorities, including Cooperative Research and Development Agreements (CRADA).<sup>14</sup>

## FAR-Based Contract Types

The FAR provides guidance to contracting officers on how to select the appropriate contract type depending on the good or service being provided. According to the FAR, these contract types vary according to two characteristics: (1) “the degree and timing of the responsibility assumed by the contractor for the costs of performance” (i.e., whether the government or the contractor is responsible for the risks of cost overruns) and (2) “the amount and nature of the profit incentive

<sup>9</sup> FAR §2.101.

<sup>10</sup> See, e.g., 33 U.S.C. § 891d(b) (authorizing the National Oceanic and Atmospheric Administration [NOAA] to enter multiyear contracts for oceanographic research, fisheries research, and mapping and charting services to assist in fulfilling NOAA missions “[n]otwithstanding any other provision of law.”).

<sup>11</sup> U.S. Government Accountability Office (GAO), *Defense Acquisitions: Role of Lead Systems Integrator on Future Combat Systems Program Poses Oversight Challenges*, GAO-07-380, June 6, 2007, p.33, <https://www.gao.gov/products/gao-07-380>.

<sup>12</sup> FAR Part 16, “Types of Contracts.” The FAR is available at <https://www.ecfr.gov/current/title-48> and <https://www.acquisition.gov/browse/index/far>.

<sup>13</sup> DFARS Part 216 “Types of Contracts,” at <https://www.ecfr.gov/current/title-48/chapter-2/subchapter-C/part-216>.

<sup>14</sup> Defense Acquisition University, “Contracting Cone,” at <https://aaf.dau.edu/aaf/contracting-cone/>. Under certain circumstances, certain agencies—including DOD—have statutory authority to enter into other transaction (OT) agreements instead of a traditional procurement contract. OT agreements are exempt from certain federal procurement laws and regulations. These exemptions grant government officials the flexibility to include, amend, or exclude contract clauses and requirements that are mandatory in traditional procurement contracts. For more information on OTs, see CRS In Focus IF12856, *Defense Primer: Other Transactions (OTs)*, by David H. Carpenter and Alexandra G. Neenan. Under certain circumstances, agencies may enter into a cooperative research and development agreement (CRADA), which allows federal laboratories to create agreements with other federal agencies, industry, and other research institutions, see Defense Acquisition University, Cooperative Research and Development Agreement, <https://aaf.dau.edu/aaf/contractingcone/rd-agreements/crada/>.

offered to the contractor for achieving or exceeding specified standards or goals” (i.e., whether the contract incentivizes the contractor to deliver goods that meet or exceed specification on, or ahead of schedule).<sup>15</sup> Based on these characteristics, contract types can be viewed on a spectrum ranging “from firm-fixed-price, in which the contractor has full responsibility for the performance costs and resulting profit (or loss), to cost-plus-fixed-fee, in which the contractor has minimal responsibility for the performance costs and the negotiated fee (profit) is fixed.”<sup>16</sup> Generally, when the price and technical specifications of a good or service are known to the agency, the agency selects a contract type that shifts the risk of cost overruns onto the contractor. When the government is purchasing a good a service whose price is unknown (i.e., a prototype) the government assumes more of the risk of cost overruns.

The selection of a contract type is often a matter for negotiation and relies on the professional judgement of the contracting officer. According to the FAR, “the objective is to negotiate a contract type and price (or estimated cost and fee) that will result in reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical performance.”<sup>17</sup> Contracting officers are generally required to document their justification for selecting a contract type in the contract file. These justifications are to include how the selection meets the agency’s need, how the government identified risks, and how the government plans to mitigate these risks.<sup>18</sup> Fixed price contracts and cost reimbursement contracts are the most common contract category types used by executive branch agencies (with variation within each category). Other contract types include time-and-materials contracts, labor-hour contracts, and letter contracts. For the total dollars obligated in FY2024 on each contract type by DOD and non-DOD agencies, see **Figure 2**.

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<sup>15</sup> FAR §16.101(a).

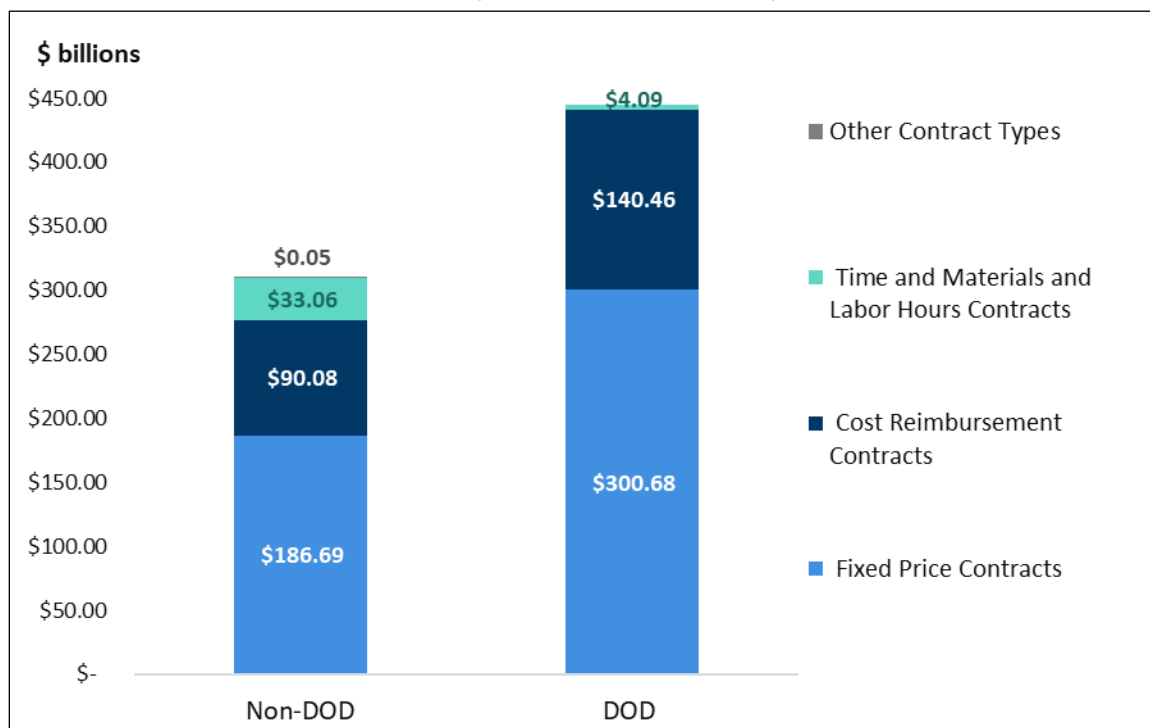
<sup>16</sup> FAR §16.101(b).

<sup>17</sup> FAR §16.103(a).

<sup>18</sup> FAR §16.103(d).



**Figure 2. DOD vs. Non-DOD Obligations by Contract Type**  
FY2024 (Billions of Nominal Dollars)



**Source:** CRS analysis of contract data from the Federal Procurement Data System (FPDS) 10/1/2023 through 9/30/2024.

**Notes:** The FPDS data does not include Other Transaction Agreement (OTA) obligations. There were no “other contract types” for DOD in FY2024.

## Fixed-Price Contracts

A fixed-price contract is a category of contracting in which the government sets a price for a good or service and the vendor’s profit varies depending on costs.<sup>19</sup> The FAR states that fixed-price contracts are “ordinarily in the government’s interest,” as “this contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss.”<sup>20</sup> According to the FAR, this contract type “provides maximum incentive for the contractor/vendor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties.”<sup>21</sup>

According to the FAR, contracting officers should select fixed-price contracts “when the risk involved is minimal or can be predicted with an acceptable degree of certainty.” If price or risk cannot be easily determined, however, “other contract types should be considered, and negotiations should be directed toward selecting a contract type (or combination of types) that will appropriately tie profit to contractor performance.”<sup>22</sup>

<sup>19</sup> FAR §16.2.

<sup>20</sup> FAR §16.104.

<sup>21</sup> FAR §16.202-1.

<sup>22</sup> FAR §16.103(b)

The government often prefers fixed-price contracts because, when used appropriately, they can minimize the risk to the government and align contractor profit motive with the government's interests. A fixed-price contract might not be an appropriate choice when price and risk cannot be adequately determined or the technical complexity of the requirement makes it difficult to estimate performance costs in advance. Choosing a fixed-price contract under such circumstances could result in escalating costs, and decreased profits or even a loss on the part of the contractor. While the contractor bears these risks under a fixed-price contract, the government may assume schedule or performance risk if it is unable to obtain what is needed to fulfill its operational needs.

The section below outlines six subcategories of fixed price contracts: (1) firm-fixed price; (2) fixed-price with economic price adjustment; (3) fixed-price incentive; (4) fixed-price with prospective price redetermination; (5) fixed-ceiling-price with retroactive price redetermination; and (6) firm-fixed-price with a level-of-effort term.

### **Firm-Fixed Price Contracts**

According to the FAR, the firm-fixed price (FFP) contract type is for commercial products or services with adequate price competition and for which the government can make reasonable cost estimates. According to the FAR, the contractor “has full responsibility for the performance costs and resulting profit (or loss)” in this type of contract.<sup>23</sup> Per DOD guidance, “it is... not in the government's best interest to use FFP contract on production programs until costs have become stable.”<sup>24</sup>

For example, an agency agrees to pay a contractor \$100 million for the development of new cybersecurity software. If the contractor's costs remain under \$100 million (e.g., \$90 million), then the contractor would realize a profit of \$10 million. For this reason, the contractor has an incentive to minimize its costs to maximize profit. Conversely, if the costs exceed \$100 million, then the contractor would realize a loss during the contract performance.

### **Fixed-Price Contracts with Economic Price Adjustment**

Similar to a firm-fixed price contract, a fixed-price contract with economic price adjustment (EPA) allows the government to make adjustments based upon established prices, actual costs of labor or materials, and other specified contingencies. According to the FAR, contracting officers should use this contract type in cases when there is a doubt on the long-term stability of the labor or materials costs.<sup>25</sup>

Per the DFARS, “contracting officers should use caution when incorporating EPA provisions in contracts. EPA provisions can result in significant and unanticipated price increase which can have major adverse impacts to a program.”<sup>26</sup> The DFARS advises that DOD contracting officers only use EPA provisions “when general economic factors make the estimating of future costs too unpredictable within a fixed-price contract.”<sup>27</sup>

According to DOD, contracting officers “expressed renewed interest” in retroactively amending contracts to add EPA provisions during the COVID-19 pandemic, due in part to the impact of

<sup>23</sup> FAR §16.101.

<sup>24</sup> DFARS Procedures, Guidance, and Information (PGI) 216.403-1. The PGI is a DFARS sub-document.

<sup>25</sup> FAR §16.203.

<sup>26</sup> DFARS PGI 216.203-4.

<sup>27</sup> Department of Defense, “Guidance on Inflation and Economic Price Adjustments,” May 2022, <https://www.acq.osd.mil/dpap/policy/policyvault/USA000999-22-DPC.pdf>.

inflation on preexisting contracts.<sup>28</sup> DOD noted that in the case of firm-fixed price contracts, vendors “generally must bear the risk of cost increases, including those due to inflation,” and that DOD had no authority to provide “contractual relief for unanticipated inflation under an FFP contract.”<sup>29</sup> In 2022, DOD advised that for new contracts, adding “an EPA clause may be an appropriate tool to equitably balance the risk of inflation between the Government and contractor,” and that contracting officers should consider the length of the contract’s performance when deciding whether or not to add an EPA clause.<sup>30</sup>

For example, an agency enters into a contract to pay \$50 million for maintenance of its vehicles, with an EPA clause to account for fluctuations in the price of vehicle parts. If the cost of vehicle parts has increased by 10% from the base price agreed upon at the beginning of the contract, the contractor may invoke the EPA clause and request that the contract price be modified (e.g., upward to \$55 million) to account for the cost increase.

### Fixed-Price Incentive Contracts

This fixed-price contract uses a U.S. government-established formula to identify various monetary incentives for the vendor to reduce costs, or meet technical performance or delivery targets.<sup>31</sup> For more information on how vendors are incentivized to reduce costs or to effectively manage a contract, see the “Incentive Contracts” section of this report.

The DFARS recommends that defense contracting officers use fixed-price incentive fee (FPIF) contracts for programs where the cost has varied by 3%-4%, and for sole-source major systems procurements unless the source of variation has been identified and can be prevented.<sup>32</sup> Per training slides issued by DOD’s Defense Pricing and Contracting, FPIF “exemplifies striking the balance... [to] ensure the warfighter obtains the goods and services they need at prices that are fair and reasonable for the tax payer while financially motivating industry to deliver and be profitable!”<sup>33</sup>

For example, an agency awards a fixed-price incentive fee (firm target) contract for the low-rate initial production (LRIP) of a military weapon system. The contract’s target price is \$1 billion, with a target cost of \$900 million and a target profit of \$100 million.<sup>34</sup> The agency may negotiate a profit adjustment formula of 20%, meaning that the contractor would receive 20% of the cost savings; and if the contract cost runs higher than \$1 billion, the contractor must subtract 20% of the cost overrun from its target profit. In this illustrative example, a cost overrun of \$100 million would reduce the contractor target profit by \$20 million (20% of the cost overrun) resulting in actual profit of \$80 million. A cost underrun of \$100 million would increase the contractor target profit by \$20 million (20% of cost underrun) resulting in an actual profit of \$120 million.

<sup>28</sup> Department of Defense, “Guidance on Inflation and Economic Price Adjustments,” May 2022, <https://www.acq.osd.mil/dpap/policy/policyvault/USA000999-22-DPC.pdf>.

<sup>29</sup> Department of Defense, “Guidance on Inflation and Economic Price Adjustments,” May 2022, <https://www.acq.osd.mil/dpap/policy/policyvault/USA000999-22-DPC.pdf>.

<sup>30</sup> Department of Defense, “Guidance on Inflation and Economic Price Adjustments,” May 2022, <https://www.acq.osd.mil/dpap/policy/policyvault/USA000999-22-DPC.pdf>.

<sup>31</sup> FAR §16.204.

<sup>32</sup> DFARS PGI 216.403-1(1)(ii).

<sup>33</sup> Defense Contracting and Pricing, “Pricing Fixed Price Incentive Firm (FIPF) Contracts,” 2021, [https://www.acq.osd.mil/asda/dpc/pcf/docs/striking-balance/2021-05-12\\_DPC\\_FPIF\\_Training\\_2021.pdf](https://www.acq.osd.mil/asda/dpc/pcf/docs/striking-balance/2021-05-12_DPC_FPIF_Training_2021.pdf).

<sup>34</sup> Target price, target cost, and target profit are all terms used in the FAR to indicate agreed-upon estimated costs, prices, and profits. These are calculated by the Contracting Officer and acquisition team and include technical analysis and pricing information, and are dependent on the technical maturity and complexity of the program.

## Fixed-Price Contracts with Prospective Price Redetermination

This fixed-price contract type establishes an initial period for deliveries or performance, with possibility of renegotiating the price at a stated time or times, during performance.<sup>35</sup> According to DOD, “these contracts are helpful when the Government and the contractor can agree on an arrangement in the short term, but there are concerns about the arrangement in the long term.”<sup>36</sup>

For example, an agency enters into a multi-year contract for the maintenance of a legacy information technology system. The agency and contractor agree on a price of \$2 million for an initial 12-month period. The initial period functions as a FFP contract, so the contractor is incentivized to control costs to maximize profit. The contract stipulates that the price will be redetermined annually after the initial period because the agency believes it is difficult to anticipate the longer-term costs associated with maintaining aging software. After reviewing costs and market conditions, the agency and contractor may agree to redetermine a new fixed price, which may be higher or lower, for the next 12-month period (e.g., \$2.1 million).

## Fixed-Ceiling-Price Contracts with Retroactive Price Redetermination

This contract type contains a ceiling, or maximum price, that may be redetermined based upon the government’s assessment of the vendor’s management effectiveness.<sup>37</sup> According to the FAR, this contract type is appropriate for research and development contracts with a cost at or below the Simplified Acquisition Threshold (SAT), “when it is established at the outset that a fair and reasonable firm fixed price cannot be negotiated and that the amount involved and short performance period make the use of any other fixed-price contract type impracticable.”<sup>38</sup>

For example, an agency enters into a contract for a research and development project that would test an unproven protective material. An initial price of \$120,000 is agreed upon for the duration of the project with a maximum, or ceiling price of \$150,000. After the period of performance ends, the contractor submits a statement of its incurred costs of \$130,000, which is below the ceiling price. Based on the cost data and the successful completion of the project, the contractor and government agree to a redetermined price of \$140,000 (which results in a \$10,000 profit for the contractor). If the contractor incurs costs of \$160,000, exceeding the ceiling cost of \$150,000, then the contractor would absorb the additional \$10,000 in costs.

## Firm-Fixed-Price, Level-of-Effort Term Contracts

This fixed-price contract type requires that a contractor “provide a specified level of effort, over a stated period of time, on work that can be stated only in general terms,” and that the government pays the contractor a fixed dollar amount.<sup>39</sup> According to the FAR, this type of contract is “suitable for investigation or study in a specific research and development area,” where the

<sup>35</sup> FAR §16.205.

<sup>36</sup> Department of Defense, “Guidance on Inflation and Economic Price Adjustments,” May 2022, <https://www.acq.osd.mil/dpap/policy/policyvault/USA001270-16-DPAP.pdf>.

<sup>37</sup> FAR § 16.206-2.

<sup>38</sup> FAR §16.206-2; Generally, the SAT is \$250,000 and \$7.5 million for commercial items, see Federal Register, “Federal Acquisition Regulation: Increased Micro-Purchase and Simplified Acquisition Thresholds,” July 2020.

<sup>39</sup> FAR § 16.207-1.

product of the contract is a report.<sup>40</sup> For DOD, this type of contract is allowed for contracts valued at \$150,000 or less.<sup>41</sup>

For example, an agency would like to conduct a study to investigate the effects of an environmental contaminant. As the results of the study are not predetermined, an FFP contract, which requires specific outcomes, is unsuitable. The agency enters into a contract with a laboratory for 1,000 hours of lab technician labor over a period of 12 months. The laboratory would receive a total of \$100,000, payable in equal monthly installments over the contract term, provided the contractor maintains the required level of effort (1,000 hours of lab technician work) and delivers the final report.

## Cost-Reimbursement Contracts

Compared to fixed-price contracts, which use a pre-set contract cost, cost-reimbursement contracts reimburse the contractor for any “allowable incurred costs.”<sup>42</sup> Cost-reimbursement contracts allow contractors to take on less financial risk when developing a product and, therefore, may be more desirable to some vendors. According to the FAR, contracting officers should only use cost-reimbursement contracts, “when (1) circumstances do not allow the agency to define its requirements sufficiently to allow for a fixed-price type contract, or (2) uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.”<sup>43</sup> This contract type is prohibited for the acquisition of commercial goods and services.<sup>44</sup> Additionally, written approval for the use of a cost-reimbursement contract must be obtained “at least one level above the contracting officer.”<sup>45</sup> Per the FAR, allowable costs on government contracts are determined based on factors including reasonableness, allocability, Cost Accounting Standards (CAS) and other “generally accepted accounting principles,” and contract terms.<sup>46</sup>

The section below outlines five subcategories of cost-reimbursement contracts: (1) cost contracts, (2) cost-sharing contracts, (3) cost-plus-incentive-fee contracts, (4) cost-plus-award-fee contracts, and (5) cost-plus-fixed-fee contracts.

## Cost Contracts

Cost contracts are a cost-reimbursement contract where the vendor receives no profit other than reimbursement for the cost of performing the contract. According to the FAR, this may be appropriate for R&D work, particularly with nonprofits, including educational institutions.<sup>47</sup>

For example, an agency enters into a contract with a university for research and development work on new radar technologies. The agency agrees to reimburse the university for all allowable and documented project costs, including direct labor, materials, and overhead. The university

<sup>40</sup> FAR § 16.207-2.

<sup>41</sup> Department of Defense, “Guidance on Inflation and Economic Price Adjustments,” May 2022, <https://www.acq.osd.mil/dpap/policy/policyvault/USA001270-16-DPAP.pdf>.

<sup>42</sup> FAR § 16.301-1.

<sup>43</sup> FAR § 16.301-2(a).

<sup>44</sup> FAR § 16.301-3(b). Examples of commercial items include desktop computers, fuel, and medicine; and examples of commercial items include installation services, maintenance services, and repair services.

<sup>45</sup> FAR § 16.301-3(a).

<sup>46</sup> FAR § 31.201-2.

<sup>47</sup> FAR § 16.302.

incurs \$120,000 in costs during the contract performance, which are fully reimbursed by the agency.

### **Cost-Sharing Contracts**

Cost-sharing contracts are cost-reimbursement contracts where the vendor receives no fees and is “reimbursed only for an agreed-upon portion of its allowable costs.”<sup>48</sup> This category of contract may be used “when the contractor agrees to absorb a portion of the costs, in the expectation of substantial compensating benefits,” such as commercialization of the resulting technology or product.<sup>49</sup>

For example, an agency enters into contract with a private defense contractor for research and development of prototype guided missile technology. The government agrees to reimburse 60% of total project costs and the contractor is responsible for the remaining 40% of costs. For a project that costs \$10 million upon completion, the government would be responsible for \$6 million and the contractor \$4 million. The contractor may be willing to incur these costs because they may gain future profits from the commercialization of the guided missile system.

### **Cost-Plus-Incentive-Fee Contracts**

This cost-reimbursement contract allows for the initially negotiated cost-plus fee to be adjusted later should the contractor prove it is controlling costs.<sup>50</sup> The process for adjusting award fees can be found on table 16-1 in subpart 16.4 of the FAR and is similar to other incentive-contract types (see “Incentive Contracts”). These contracts are commonly used in research and development, and technical service projects, where it may be difficult to estimate precise costs in advance. DOD contracting officers are prohibited from using this category of contract for most “contracts in connection with a military construction project or a military family housing project.”<sup>51</sup>

For example, an agency enters into a contract for a new space launch system. The target cost for the contract is \$200 million with a sharing ratio of 50% (underrun/overrun) and a target fee of \$16 million. If the contractor finishes the project at \$190 million, then they would have saved \$10 million from the target project cost. The incentive fee of \$5 million would be 50% of the cost underrun (\$10 million). The target fee of \$16 million is, therefore, adjusted upward by the incentive fee of \$5 million for a final fee of \$21 million. If the contractor’s costs are \$210 million (a cost overrun of \$10 million) then the contractor’s target fee of \$16 million would be adjusted downward by 50% of the cost overrun (\$5 million). In this case the final fee would be \$11 million.

### **Cost-Plus-Award-Fee Contracts**

A cost-plus-award fee contract is a cost-reimbursement contract that allows for a fee based on “a base amount... fixed at inception of the contract” as well as “an award amount, based upon a judgmental evaluation by the Government, sufficient to provide motivation for excellence in contract award performance.”<sup>52</sup> Award-fee contracts are also considered “a type of incentive contract” that is suitable when the “work to be performed is such that it is neither feasible nor

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<sup>48</sup> FAR §16.303.

<sup>49</sup> FAR §16.303.

<sup>50</sup> FAR §16.405-1.

<sup>51</sup> DFARS 216.301-3.

<sup>52</sup> FAR §16.305.

effective to devise predetermined...targets applicable to cost, schedule, or technical performance.”<sup>53</sup>

For example, an agency enters into a contract for the development of a new unmanned aerial vehicle. The agency agrees to pay all allowable costs incurred by the contractor as well as a fixed base fee of \$1 million. A larger portion of the contractor’s potential profit is set aside as an award-fee pool of up to \$10 million. The contract specifies that the contractor may receive between 0% and 100% of the award-fee based on how they are evaluated by the agency against defined performance criteria, which may include technical performance (e.g., speed and stealth goals), schedule adherence, and cost control. In this example, the agency evaluates the contractor as “very good” on a scale of “unsatisfactory” to “excellent” and receives 80% of the award-fee pool, or \$8 million. Combined with the fixed base fee of \$5 million, the contractor would earn a profit of \$9 million.

### **Cost-Plus-Award-Fee Contracts**

A cost-plus-award-fee contract is a cost-reimbursement contract that provides a negotiated fixed fee to the vendor that “may be adjusted as a result of changes in the work to be performed.”<sup>54</sup> These contracts are typically used in research and development, and technical service projects, where it may be difficult to estimate precise costs in advance. Under this contract type, there are minimal incentives for the contractor to control costs, and the government accepts the full risk of cost overruns. DOD contracting officers are prohibited from using this category of contracting for most “contracts in connection with a military construction project or a military family housing project.”<sup>55</sup> The FAR states that cost-plus fixed-fee contracts provide “only a minimum incentive to control costs” for vendors.<sup>56</sup>

For example, an agency enters into a contract for research and development of a missile detection system. The contract sets an estimated project cost of \$10 million and a fixed fee of \$2 million. If the contractor’s costs exceed \$10 million, the government would reimburse the \$10 million plus the extra allowable costs, and pays the fixed fee of \$2 million. If the contractor completes the project for less than the estimated cost, the contractor would still receive a fixed fee of \$2 million.

### **Incentive Contracts**

Incentive contracts are either fixed-price or cost-reimbursement contracts that contain additional incentives for vendors to attain certain goals.<sup>57</sup> Incentive contracts use “predetermined, formula-type” incentives.<sup>58</sup> Incentives can be tied to the contractor’s technical and delivery performance targets or their ability to control costs throughout the performance of the contract. For examples of incentive contracts, see “Fixed-Price Incentive Contracts” and “Cost-Plus-Incentive-Fee Contracts.”

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<sup>53</sup> FAR §16.401.

<sup>54</sup> FAR §16.306.

<sup>55</sup> DFARS 216.301-3.

<sup>56</sup> FAR §16.306.

<sup>57</sup> FAR §16.401(c).

<sup>58</sup> FAR §16.401(b).



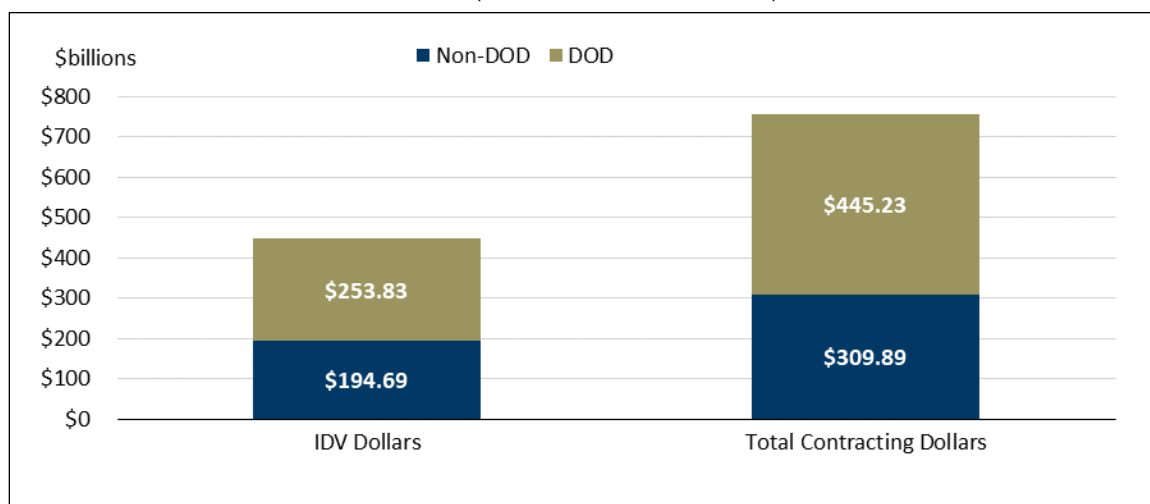
## Indefinite-Delivery Contracts

An indefinite-delivery contract or indefinite-delivery vehicle (IDV) is a contract that has been awarded to one or more vendors to provide supplies and services.<sup>59</sup> According to the FAR, “the appropriate type of indefinite-delivery contract may be used to acquire supplies or services when the exact times or exact quantities of future deliveries are not known at the time of contract award.”<sup>60</sup> As discussed below, there are three types of IDVs: (1) definite-quantity; (2) requirements; and (3) indefinite delivery, definite-quantity. Once an IDV has been established, an agency may place task orders for services and delivery orders for supplies to fulfill a need. These orders obligate funds and authorize work; they may utilize various contract types, including fixed-price contracts or cost-reimbursement contracts.

In FY2024, approximately 57% of DOD contract award dollars and 63% of non-DOD contract award dollars were obligated on IDVs (see **Figure 3**).

**Figure 3. DOD vs. Non-DOD Indefinite-Delivery Contract Award Dollars and Total Contracting Dollars**

FY2024 (Billions of Nominal Dollars)



**Source:** CRS analysis of data from the System for Award Management website (SAM.gov), “Buying Through Government Acquisition Vehicles” report for 10/1/2023 through 9/30/2024.

## Definite-Quantity Contracts

This is an indefinite-delivery contract that provides for the delivery of a certain quantity of supplies or services for a fixed period, with specific delivery times to be scheduled in the future.<sup>61</sup>

For example, an agency enters into a two-year contract to purchase a fixed number of bulletproof vests (1,000), with a price of \$400 per unit. The agency would place delivery orders over the two-year contract performance period until 1,000 vests have been delivered, for a total contract cost of \$400,000.

<sup>59</sup> FAR §16.501.

<sup>60</sup> 4 FAR §16.501-2. For more information about indefinite-delivery contracts, see CRS In Focus IF12558, *Indefinite Delivery, Indefinite Quantity Contracts*, by Dominick A. Fiorentino and Alexandra G. Neenan.

<sup>61</sup> FAR §16.502.



## Requirements Contracts

This is an indefinite-delivery contract where the contractor is to fulfill the requirements of a specified government agency for products or services during a defined time period. Requirements contracts do not contain a guaranteed minimum order amount. These contracts may not exceed \$100 million for a single source.<sup>62</sup>

For example, an agency enters into a contract with one vendor for landscaping services at a military installation at a cost of \$200 per hour of work ordered. The contractor is the exclusive provider of the agency's landscaping needs at the installation during the contract period. The contract states an estimated amount of landscaping work based on historical data, but this estimate does not guarantee a minimum order amount. The agency places task orders as needed throughout the contract period (e.g., the agency may order 150 hours of landscaping services in May and 0 hours of landscaping services in January).

## Indefinite Delivery, Indefinite-Quantity Contracts

Indefinite delivery, indefinite quantity (IDIQ) contracts provide for an indefinite quantity, within stated limits, of products or services during a fixed period of time. IDIQ contracts “must require the government to order and the contractor to furnish” a minimum quantity of supplies or services. IDIQ contracts also contain a maximum order amount. According to the FAR, this should be used “only when a recurring need is anticipated.”<sup>63</sup>

The GSA maintains a type of IDIQ contract known as a supply schedule—a list of goods or services available to federal agencies from multiple GSA-selected vendors at varying prices.<sup>64</sup> This schedule is known as either the Federal Supply Schedule (FSS) or a multiple award schedule. Agencies may order commercial goods and services listed on the schedule in varying quantities at the prices stated on the schedule. The FSS, therefore, provides a simplified process for agencies to acquire goods and services while also obtaining volume discounts.

A governmentwide acquisition contract (GWAC) is an IDIQ contract for information technology (IT) goods and services awarded by one agency for government-wide use. Under the Clinger-Cohen Act of 1996, the Office of Management and Budget designates agencies that may manage and operate GWACs.<sup>65</sup> Agencies that have managed GWACs include GSA, the National Institutes of Health (NIH), and the National Aeronautics and Space Administration (NASA).<sup>66</sup> Executive Order (E.O.) 14240 “Eliminating Waste and Saving Dollars by Consolidating Procurement,” issued on March 20, 2025, requires that the OMB Director designate the “Administrator of General Services” as the executive agent for all Government-wide acquisition contracts for information technology.<sup>67</sup>

<sup>62</sup> FAR §16.503.

<sup>63</sup> FAR §16.504.

<sup>64</sup> For more information on IDIQ contracts, see CRS In Focus IF12558, *Indefinite Delivery, Indefinite Quantity Contracts*, by Dominick A. Fiorentino and Alexandra G. Neenan.

<sup>65</sup> 40 U.S.C. §11302(e). Specifically, it requires the OMB Director to designate one or more agencies as “executive agent for Government-wide acquisitions of information technology.”

<sup>66</sup> OMB, “Multi-Agency Contract Opportunities,” [https://obamawhitehouse.archives.gov/omb/procurement\\_multi\\_agency\\_contract\\_opps/](https://obamawhitehouse.archives.gov/omb/procurement_multi_agency_contract_opps/).

<sup>67</sup> Executive Order 14240 of March 20, 2025, “Eliminating Waste and Saving Dollars by Consolidating Procurement,” 90 *Federal Register* 13671, March 25, 2025, <https://www.federalregister.gov/documents/2025/03/25/2025-05197/eliminating-waste-and-saving-taxpayer-dollars-by-consolidating-procurement>.

For example, GSA awards a five-year, multiple-award IDIQ contract for IT services to five vendors. The contract requires the government to order at least \$100,000 worth of IT services from each vendor and up to a maximum of \$10,000,000 in cumulative task orders. When an agency decides it requires IT services, it places a task order against the GSA IDIQ contract. The five vendors compete for the task order, and the agency makes a task order award worth \$500,000 to one of the five vendors. Agencies may place additional orders against the IDIQ contract until (1) the period of performance has elapsed, or (2) the cumulative value of orders awarded all five vendors reaches the maximum of \$10,000,000.

## **Other Contract Types**

According to the FAR, time-and materials, labor-hour, and letter contracts are by definition “not fixed price contracts” that support the government in acquiring supplies or services. Time-and materials and letter contracts may only be used if the head of the contracting activity determines that “no other contract is suitable.”<sup>68</sup> Each of these is outlined below.

### **Time-and-Materials Contracts**

Time-and-materials contracts allow the government to acquire supplies or services on the basis of either the contractor’s actual cost of materials or direct labor hours. According to the FAR, this type of contract “may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence,” and is subject to certain surveillance procedures to control cost.<sup>69</sup>

For example, an agency enters into a contract for a cybersecurity system upgrade. Because the project scope is uncertain, the agency agrees to pay the contractor a fixed hourly rate for each labor category covering wages, overhead, and profit (e.g., \$200 per hour for “senior engineer” and \$150 per hour for “IT specialist”), as well as the actual cost of materials. The contract also includes a ceiling price of 700,000. By the end of the contract performance, the contractor has billed the government for 1,500 hours of “IT specialist” work and 800 hours of “senior engineer” work (totaling \$385,000 of labor) as well as \$115,000 of materials for a total contract price of \$500,000.

### **Labor-Hour Contracts**

Labor-hour contracts are similar to the time-and-materials contract except that the contractor does not supply materials. This contract has the same restrictions and surveillance requirements as time-and-materials contracts.<sup>70</sup>

For example, an agency enters into a contract for specialized consulting. Because the project scope is uncertain, the agency agrees to pay the contractor a fixed hourly rate for each labor category covering wages, overhead, and profit (e.g., \$150 per hour for “senior manager” and \$100 per hour for “analyst”). The contract also includes a ceiling price of \$300,000. By the end of the contract performance, the contractor has billed the government for 500 hours of “senior manager” work and 1,000 hours of “analyst” work for a total contract price of \$175,000.

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<sup>68</sup> FAR §16.6.

<sup>69</sup> FAR §16.601.

<sup>70</sup> FAR §16.602.

## Letter Contracts

A letter contract acts as a preliminary contract, and may be used when “the Government’s interests demand that the contractor be given a binding commitment so that work can start immediately.”<sup>71</sup> Letter contracts are typically used during natural disaster or other emergency situations.<sup>72</sup> This type of contract must be approved by the head of the contracting activity, and the FAR specifies several limitations and required clauses.<sup>73</sup> The letter contract is to also state the government’s maximum liability under the letter contract (the maximum the government will pay before a contract is definitized) as well as a deadline by which a definitive contract must be executed.<sup>74</sup>

For example, an agency enters into a preliminary written agreement on June 1, 2025, with a contractor for disaster relief tents in the immediate aftermath of a natural disaster. The letter contract states that the vendor will immediately begin delivering disaster relief tents, the government’s maximum liability under the letter contract is \$1 million, and a definitive contract is to be executed within 180 days of the letter contract’s issuance. The letter contract also estimates that the definitive contract will not exceed \$3 million.

## Issues for Congress

Congress may consider whether or not current contract types result in clear efficiencies, or adequately account for risk in contract execution. As the Trump Administration, through various executive orders, attempts to overhaul the FAR to encourage the “most agile, effective, and efficient procurement system possible,” Congress may consider the extent to which Congress executes its oversight role (e.g., no action, requesting additional information, holding hearings, legislating).

## Use of Fixed-Price Contracts for High-Risk Acquisitions

Fixed-price contracts are intended to reduce government risk. In some scenarios, their use has been tied to financial losses for contractors. Some companies, such as the Boeing Company (Boeing), the fourth-largest DOD contractor, have reported financial losses on DOD fixed price contracts.<sup>75</sup> In a 2024 earnings call, Boeing cited fixed-price development programs as one of its “cost pressures.”<sup>76</sup> Boeing stated that “the magnitude of these losses expanded” due to “higher estimated production costs on the T-7A program... and an updated assessment of impacts on the KC-46A program.”<sup>77</sup> According to some commentators, this experience “makes both sides of the

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<sup>71</sup> FAR §16.603-2(a).

<sup>72</sup> CRS Report R47350, *Federal Procurement: Emergency-Related Acquisition Flexibilities*, by Dominick A. Fiorentino.

<sup>73</sup> FAR §16.603-3.

<sup>74</sup> FAR §16.603-2.

<sup>75</sup> Department of Defense, “Defense Spending by State, Fiscal Year 2023,” [https://oldcc.gov/sites/default/files/2024-12/oldcc\\_dsbs\\_fy2023\\_final\\_web\\_20240929.pdf](https://oldcc.gov/sites/default/files/2024-12/oldcc_dsbs_fy2023_final_web_20240929.pdf). For an example of a company’s financial problems, see CRS Insight IN12455, *Defense Implications of Challenges at Boeing*, by Jennifer DiMascio and Alexandra G. Neenan. Boeing manufactures several aircraft important to U.S. military capabilities, including several military versions of commercially available airliners.

<sup>76</sup> Call Street, “The Boeing Company, Q3 2024 Earnings Call,” October 2024, [https://s2.q4cdn.com/661678649/files/doc\\_financials/2024/q3/3Q24-Boeing-Earnings-Call-Transcript.pdf](https://s2.q4cdn.com/661678649/files/doc_financials/2024/q3/3Q24-Boeing-Earnings-Call-Transcript.pdf).

<sup>77</sup> Call Street, “The Boeing Company, Q3 2024 Earnings Call,” October 2024, [https://s2.q4cdn.com/661678649/files/doc\\_financials/2024/q3/3Q24-Boeing-Earnings-Call-Transcript.pdf](https://s2.q4cdn.com/661678649/files/doc_financials/2024/q3/3Q24-Boeing-Earnings-Call-Transcript.pdf).

market – the Pentagon and the contractors – sharpen their pencils... [and that] contractors will be more discerning about the readiness of their engineering chops and the ability of their balance sheets to absorb risk.”<sup>78</sup> Congress may consider changing the types of contracts DOD is and is not permitted to use based on the technical complexity or cost of the respective program. Congress may also consider whether or not to exercise a greater degree of oversight of how the federal government decides what kind of contract to use, particularly for high-cost or high-risk programs.

Boeing currently holds a set of fixed-price contracts with DOD, including for the VC-25B presidential aircraft, the T-7A trainer, and the MQ-9 carrier-based uncrewed aircraft.

## Potential Impact of Executive Order 14275 on FAR Part 16

Congress may also consider whether or not to exercise greater oversight of government acquisition processes in light of executive orders issued by the Trump Administration. On April 15, 2025, President Trump issued E.O. 14275 titled “Restoring Common Sense to Federal Procurement.”<sup>79</sup> The E.O. called for “removing undue barriers, such as unnecessary regulations, while simultaneously allowing for the expansion of the national and defense industrial bases.” Section 4 of the executive order requires the Administrator of the Office of Federal Public Procurement Policy (OFPP), with other members of the Federal Acquisition Regulatory Council (FAR Council), to “amend the FAR to ensure that it contains only provisions that are required by statute or that are otherwise necessary to support simplicity and usability, strengthen the efficacy of the procurement system, or protect economic or national security interests.” Until final rules are published, the OFPP Administrator and the FAR Council may be expected to issue deviation and interim guidance on a rolling basis.<sup>80</sup> In an editorial published in *Government Executive*, three OMB and GSA officials stated that the existing FAR contains provisions and contract clauses that “are often obsolete, duplicative and conflict with each other” and that overhauling the FAR by “eliminat[ing] nearly all non-statutory and duplicative regulations” would result in the government obtaining “the best products and services at the best cost.”<sup>81</sup>

As not all contract types listed in the FAR are statutorily defined, it is unclear how the implementation of the E.O. might affect Part 16 of the FAR, which provides policy and guidance on the selection of contract types. If this section of the FAR is reduced to “only provisions that are required by statute or that are otherwise necessary to support simplicity and usability,” as the Administration promotes, then contracting officers might gain greater flexibility in choosing contract types.<sup>82</sup> Increased flexibility may be accompanied by many outcomes, including less consistency in procurement actions within and across agencies and reduced use of fixed-price contracts. This could potentially lead to more efficient contracting, but may also potentially lead to less competitive contracting. Congress may monitor or study how potential changes to the FAR may affect the effectiveness of agency procurement actions.

<sup>78</sup> Stephen Losey, “Cautionary Tale: How Boeing Won a US Air Force Program and Lost \$7B,” *Defense News*, January 9, 2024.

<sup>79</sup> Executive Order 14275 of April 15, 2025, “Restoring Common Sense to Federal Procurement,” 90 Federal Register 16447, April 18, 2025, <https://www.federalregister.gov/documents/2025/04/18/2025-06839/restoring-common-sense-to-federal-procurement>.

<sup>80</sup> GSA, “Revolutionary FAR Overhaul: FAR Parts and Agency Deviations,” <https://www.acquisition.gov/far-overhaul/far-part-deviation-guide>.

<sup>81</sup> Kevin Rhodes et al., “Trump officials explain his plan to make government acquisition great, for once,” *Government Executive*, April 16, 2025, <https://www.govexec.com/management/2025/04/trump-officials-explain-his-plan-make-government-acquisition-great-once/404593/>.

<sup>82</sup> GSA, “Revolutionary FAR Overhaul: FAR Parts and Agency Deviations,” <https://www.acquisition.gov/far-overhaul/far-part-deviation-guide>.

## Potential Impact of Executive Order 14240 on Agency Use of IDIQ Contracts

Congress may consider the extent to which it might exercise oversight over agency use of IDIQ contracts. On March 20, 2025, President Trump issued E.O. 14240 titled “Eliminating Waste and Saving Taxpayer Dollars by Consolidating Procurement.”<sup>83</sup> The E.O. instructs agencies to purchase more common goods and services (i.e., items and services that are bought by many agencies rather than those specialized for the needs of one agency) and to buy them through GSA contracts.<sup>84</sup> Specifically, section 3 of the E.O. requires agencies to submit plans to the GSA Administrator “to have the General Services Administration conduct domestic procurement with respect to common goods and services for the agency, where permitted by law.” On July 18, 2025, the OMB issued a memorandum to agencies on the implementation of the E.O.<sup>85</sup> According to OMB, GSA currently manages “less than 20 percent of common spend.”<sup>86</sup>

Consolidating procurement of common goods and services in GSA would likely increase the use of FSS and GWAC IDIQ contracts. Section 1 of the E.O. states that “consolidating domestic Federal procurement in the General Services Administration—the agency designed to conduct procurement—will eliminate waste and duplication, while enabling agencies to focus on their core mission of delivering the best possible services for the American people.” Other observers have argued that consolidating procurement in GSA could result in GSA acting as a monopoly service provider to customer agencies, resulting in poor customer service.<sup>87</sup> Additionally, as multiple award IDIQ contracts could be awarded to as few as two vendors, a lack of competition could be considered a cost risk under these contracts, as the government might not obtain the best price.

Congress might consider whether GSA has the capacity to manage such an increase in contracting activity given recent reductions of approximately 16% of the workforce.<sup>88</sup> Despite workforce reductions, the GSA Administrator, in remarks to GSA employees, reportedly communicated a goal of quadrupling the value of contract spending made through GSA.<sup>89</sup> According to GAO, “Contracting officers must avoid situations in which contractors specialize in one or a few areas of the work,” as this may increase the likelihood that only one vendor would compete for

<sup>83</sup> Executive Order 14240 of March 20, 2025, “Eliminating Waste and Saving Dollars by Consolidating Procurement,” 90 *Federal Register* 13671, March 25, 2025, <https://www.federalregister.gov/documents/2025/03/25/2025-05197/eliminating-waste-and-saving-taxpayer-dollars-by-consolidating-procurement>.

<sup>84</sup> The process of grouping similar goods and services for the purposes of procurement is referred to as “category management.” For more information, see GSA, “Category Management,” <https://www.acquisition.gov/content/category-management>.

<sup>85</sup> Office of Management and Budget (OMB), Memorandum M-25-32, “Consolidating Federal Procurement Activities,” July 18, 2025, <https://www.whitehouse.gov/wp-content/uploads/2025/07/M-25-31-Consolidating-Federal-Procurement-Activities.pdf>.

<sup>86</sup> OMB, Memorandum M-25-31, p.2. Common spend refers to goods and services that are purchased governmentwide (i.e., goods and services that are not specific to one agency but support the operations of most agencies).

<sup>87</sup> Steve Kelman, “Back to the future at GSA with contracting executive order,” *NextGov*, March 24, 2025, <https://www.nextgov.com/ideas/2025/03/back-future-gsa-contracting-executive-order/403983/>.

<sup>88</sup> Government Executive, “More than 2,100 GSA employees have accepted deferred resignations,” May 23, 2025, <https://www.govexec.com/workforce/2025/05/more-2100-gsa-employees-have-accepted-deferred-resignations/405537/>.

<sup>89</sup> Natalie Alms, “GSA to ‘quadruple’ in size to centralize procurement across the government,” March 20, 2025, <https://www.nextgov.com/acquisition/2025/03/gsa-quadruple-size-centralize-procurement-across-government/403935/>.

individual orders despite the presence of multiple vendors on the IDIQ contract, thus potentially reducing competition for orders.<sup>90</sup>

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<sup>90</sup> Government Accountability Office (GAO), GAO-17-329, "Agencies Widely Used Indefinite Contracts to Provide Flexibility to Meet Mission Needs," April 13, 2017, p.4, <https://www.gao.gov/assets/gao-17-329.pdf#page=9>.