

Why GAO Did This Study

Committees in Congress have stated that ESOP corporations can help DOD increase the number and range of companies it contracts with to foster innovation and broaden the defense industrial base. Congress authorized DOD to establish a pilot program to award follow-on contracts, on a noncompetitive basis, to contractors that are S corporations wholly owned by an ESOP. DOD awarded contracts valued collectively at over \$450 million under the program, which expires in 2029.

The National Defense Authorization Act for Fiscal Year 2022 includes a provision for GAO to review DOD's ESOP pilot program activities. This report assesses the extent to which (1) DOD has effectively managed the ESOP pilot program, and (2) the program aligns with leading practices for pilot program design.

GAO reviewed relevant legislation, pilot program requirements, and contract documentation; interviewed DOD officials and contractor representatives; and compared DOD's pilot program plans and efforts against GAO leading practices for pilot program design.

What GAO Recommends

GAO is making six recommendations to DOD, including that it provides additional guidance for contracting officials in implementing the ESOP pilot program, and ensures that the ESOP pilot program better aligns with the five leading practices for pilot program design. DOD concurred with all of GAO's recommendations.

View [GAO-25-107531](#). For more information, contact Mona Sehgal at (202) 512-4841 or sehgal@gao.gov.

DOD CONTRACTING

Opportunities Exist to Improve Pilot Program for Employee-Owned Businesses

What GAO Found

The Department of Defense (DOD) awarded eight contracts under its employee stock ownership plan (ESOP) pilot program. ESOPs are benefit plans in which company stock held by a trust is allocated to employees as a retirement benefit. DOD issued a memorandum in November 2022 outlining the parameters of the pilot, but did not provide contracting officials with adequate guidance, such as collecting robust data to determine a contractor's eligibility. GAO found evidence that DOD awarded a pilot program contract to an ineligible contractor. DOD issued updated guidance in December 2024 that included ways for contracting officers to determine a contractor's eligibility. However, the updated guidance did not provide other information on key aspects of the program that could better position contracting officers to properly implement the pilot program.

Furthermore, DOD's efforts to develop and implement the pilot program do not fully align with GAO's leading practices for pilot program design. These practices state that a pilot program should be designed to collect data for program officials to make well informed decisions.

DOD's ESOP Pilot Program Does Not Fully Align with GAO Leading Practices

GAO leading practice for pilot program design	ESOP pilot program
Establish well-defined, appropriate, clear, and measurable objectives.	Partially aligned
Articulate a data gathering and assessment methodology.	Partially aligned
Develop a plan to evaluate the pilot's implementation and performance.	Did not align
Draw and document conclusions about scalability based on pilot results.	Did not align
Appropriate two-way stakeholder communication and input.	Partially aligned

Source: GAO assessment of Department of Defense (DOD) employee stock ownership plan (ESOP) pilot program; GAO Pilot Program Leading Practices, GAO-16-438. | [GAO-25-107531](#)

DOD's efforts partially align with three of the leading practices:

- DOD officials stated that one of their priorities was to expand the defense industrial base but did not identify any measurable objectives.
- DOD described the type of data needed to assess the pilot program, but did not clearly articulate an assessment methodology.
- DOD received some feedback from contracting officers and contractors and intends to solicit additional input, but does not yet have a plan for doing so.

DOD's efforts do not align with the other two leading practices. First, DOD has not developed an evaluation plan. Second, DOD does not know the number of ESOP corporations that could benefit from the program—information needed to make a scalability determination. Without a well-designed pilot program that fully aligns with leading practices, DOD will not have data to identify program successes and challenges to inform future phases. But DOD still has an opportunity to make improvements, including implementing leading practices.