The Realities of DOD Contract Compliance: Staying Ahead of Economic Price Adjustments

Working with the Department of Defense means living under a microscope. Every line item, every cost projection, and every delivery date gets scrutinized. But the hardest part isn't the initial audit. It is keeping your contract compliant as months and years pass. Costs shift. Supply chains tighten. The economy throws curves that nobody predicted. That is where dod contract compliance often stumbles, not because contractors try to cheat, but because the rules for adjusting prices are complex and easy to overlook.

I have seen this firsthand. A colleague of mine runs a small manufacturing shop that makes specialized components for military vehicles. When they won their first DOD contract, they celebrated. Six months later, the price of raw steel jumped by 40 percent. Their fixed-price contract did not account for that kind of swing. They had agreed to a price based on old market data, and suddenly every unit they shipped cost more to produce than what the government paid. The contract had an economic price adjustment clause, but nobody on their side understood how to trigger it correctly. They lost money on every order until they renegotiated. That experience taught me that dod contract compliance is not just about delivering on time. It is about knowing how to adapt when the ground shifts under your feet.

Where Most Contractors Get Stuck

The biggest trap I see is the assumption that a signed contract stays static. In reality, DOD contracts are living documents. The Federal Acquisition Regulation (FAR) includes specific provisions for price adjustments, especially when market conditions change. But these provisions are not automatic. You have to know they exist, understand the triggers, and document everything properly. The failure point is almost always in the paperwork. Contractors submit a request for adjustment, but they leave out a required cost breakdown or they miss a deadline buried in the fine print.

Another common issue is the mismatch between cost data and the adjustment formula. The government uses indices like the Producer Price Index or specific labor cost indexes to calculate fair adjustments. If your internal cost tracking does not align with those indexes, you end up arguing over numbers that the contracting officer cannot verify. It turns into a back-and-forth that drags on for months. Meanwhile, you are still delivering parts at a loss.

The Role of Economic Price Adjustments

Economic price adjustments exist to protect both parties. The government wants to keep suppliers healthy enough to fulfill the mission, and contractors need to stay solvent. A well-

structured adjustment clause ties price changes to objective external data. For example, a contract might say that if a certain index increases by more than 5 percent, the contractor can request a proportional price increase. That sounds straightforward, but the devil is in the details. What counts as the base period? Which index version? What documentation proves the change is real and not speculative?

I have worked with teams that thought a simple letter and a spreadsheet would suffice. It does not. The government expects a certified cost or pricing data submission under the Truth in Negotiations Act for any adjustment over a certain threshold. If you skip that step, your request gets rejected. Worse, it can flag your file for a compliance review. That is how small mistakes turn into big problems.

Practical Steps to Stay Compliant

So what can you do? First, build a compliance team that includes someone who reads the FAR like other people read a novel. This does not have to be a lawyer, but it should be someone who knows the specific clauses that apply to your contract type. Fixed-price with escalation, fixed-price with redetermination, and cost-reimbursement contracts all have different rules. Mixing them up is a recipe for an audit finding.

Second, automate your cost tracking. I know that sounds like tech jargon, but it matters. If you are still entering cost data manually into a spreadsheet, you will miss the subtle shifts that trigger adjustment clauses. A dedicated system like SpendLogic can help you match your actual costs against the indices referenced in your contract. It gives you a real-time view of where you stand. When an index moves, you get a warning before your margin disappears. That kind of visibility turns compliance from a reactive scramble into a managed process.

Third, document every conversation. When you talk to a DOD contracting officer about a potential price adjustment, send a follow-up email that summarizes what was discussed. Keep a file of those emails. If a dispute arises later, that written record is your best defense. Verbal agreements do not hold up in a compliance audit.

Fourth, schedule regular internal reviews. Do not wait for the government to schedule an audit. Walk through your own contract files quarterly. Check that your submitted invoices match your cost data. Verify that any adjustments you claimed were properly authorized. Look for any clause that requires a notification deadline. I have seen perfectly good adjustment claims get denied because the contractor sent the notice one day late. The government will not bend on that.

Why This Matters Beyond the Bottom Line

Compliance is not just about getting paid fairly. It is about trust. The DOD relies on a network of suppliers who can deliver consistently over long periods. When a contractor repeatedly files late or incomplete adjustment requests, it signals that they might not be reliable for the next big contract. On the flip side, a contractor who keeps clean records and follows the rules becomes a preferred partner. That opens doors to sole-source awards and longer-term deals.

I recall a company that supplied fuel pumps for ground vehicles. They had been doing business with the DOD for years, but they had never formally used an economic price adjustment clause. When fuel prices started rising, they just absorbed the cost because they did not want to rock the boat. Eventually, they brought in a consultant who showed them how to document the cost increases properly. They filed a retroactive adjustment request for the previous year and received a significant payment. More importantly, the contracting officer appreciated their thoroughness. That company went on to win a multi-year contract because the government knew they would not spring surprises during execution.

The Human Element

At the end of the day, dod contract compliance comes down to people. You can have the best software and the most detailed procedures, but if your team does not understand why compliance matters, they will cut corners. I have found that the most effective approach is to make compliance part of the company culture. Talk about it in staff meetings. Celebrate when someone catches a mistake before it becomes a finding. Show the team how proper compliance protects their jobs and the company's future.

It also helps to build relationships with your DOD counterparts. A contracting officer is not your enemy. They have a job to do, and they appreciate contractors who make that job easier. If you communicate early when you see a cost trend changing, they will work with you. If you wait until the last minute and try to force an adjustment through, they will push back. Trust me, I have seen both approaches play out. The early communicators always get better outcomes.

Final Thoughts

Navigating DOD contracts is not a one-time effort. It is a continuous discipline that requires attention to detail and a willingness to adapt. Economic price adjustments are a tool that can keep your business healthy, but only if you use them correctly. The key is to stay informed, keep your data accurate, and never assume that the government will look the other way when something slips. By treating dod contract compliance as an ongoing conversation rather than a box to check, you can build a sustainable partnership with the DOD that benefits everyone.