

ALERT

President Trump Issues New EO to Improve “Cost Efficiency” of Government Contracts and Grants

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On February 26, 2025, the Trump Administration issued a new Executive Order (EO) that will significantly impact existing and new government contracts and grants. The stated purpose of the EO, titled “Implementing the President’s ‘Department of Government Efficiency’ Cost Efficiency Initiative,” is to “commence[] a transformation in Federal spending on contracts, grants, and loans to ensure Government spending is transparent and Government employees are accountable to the American public.” This action is part of the Trump Administration’s continuing efforts to reduce government spending and make the government more efficient. In practice, this latest EO is likely to result in terminations, reductions in scope, delays in payment and disputes under existing government contracts and grants, as well as delays in new awards.

The Executive Order

The EO has three primary components relevant to government contractors and grantees.

First, the EO directs each agency to “build a centralized technological system within the agency to seamlessly record every payment issued by the agency” under covered contracts and grants, “along with a brief, written justification for each payment submitted by the agency employee who approved the payment.” The system must allow agency heads “to pause and rapidly review any payment” that lacks a written justification. Once the system is in place, agencies must issue guidance, in consultation with the DOGE Team Lead, requiring agency employees to “promptly submit a brief, written justification

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prior to that employee’s approval of a payment under covered contracts and grants,” subject to any exceptions established by the agency. The EO states that the payment justifications will be posted publicly to the maximum extent practicable.

Second, the EO directs all agencies, in consultation with the DOGE Team Lead, to “review all existing covered contracts and grants and, where appropriate and consistent with applicable law, to terminate or modify (including through renegotiation) such contracts and grants to reduce overall Federal spending or reallocate spending to promote efficiency and advance the policies” of the Trump Administration. The EO states that this review must be conducted by each agency within 30 days, and that they must “prioritize the review” of contracts and grants with “educational institutions and foreign entities for fraud, waste and abuse.”

Third, the EO directs each agency, in consultation with the DOGE Team Lead, to conduct a “comprehensive review” of its “contracting policies, procedures, and personnel” within 30 days. Following this review, and “prior to entering into new contracts,” agencies must issue guidance “on signing new contracts or modifying existing contracts to promote government efficiency and the policies” of the Trump Administration. The EO states that the head of the agency “may approve new contracts prior to the issuance of such guidance on a case-by-case basis.”

In addition to these key requirements, the EO also includes new requirements concerning non-essential travel by agency employees and freezes all government credit cards held by agency employees for 30 days. It also requires agencies to take several actions concerning the disposition of real property, including terminating existing leases of government-owned real property.

The EO’s requirements regarding review of payments and awards apply to “covered contracts and grants,” which are defined as “discretionary spending through Federal contracts, grants, loans, and related instruments, but excludes direct assistance to individuals; expenditures related to immigration enforcement, law enforcement, the military, public safety, and the intelligence community; and other critical, acute, or emergency spending, as determined by” the agency. Notably, the EO states that it does not apply to federal law enforcement officers, covered contracts and grants directly related to the enforcement of federal criminal or immigration law, U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement, the Uniformed Services, classified information and classified information systems, or any covered contract or grant that the head of the agency exempts in writing.

What This Means for Government Contractors and Grantees

The Trump Administration’s latest effort to reduce government spending and promote government efficiency will have a direct impact on contractors and grantees by further empowering DOGE Team Leads within each agency to monitor contract payments and contract awards, and directing agencies to terminate or modify (i.e., renegotiate) contracts and grants to advance the new Administration’s goals.

The new requirement to justify every payment under covered contracts and grants could give rise to delays in payment, as well as potential disputes and claims for payment and/or claims for Prompt Payment Act interest if the government breaches its obligation to timely pay amounts due and owing under a “proper invoice” for

work performed. To the extent agencies attempt to shift the burden of providing the required justifications to contractors and grantees, this new requirement could lead to increased administrative costs and further delays for agency review and adjudication of the sufficiency of explanations.

The EO’s requirement for each agency to build its own “centralized technological system” to track all payments and justifications, as well as the requirement to review each agency’s contracting policies and procedures and issue new guidance “on signing new contracts or modifying existing contracts to promote Government efficiency and the policies of my Administration,” could also result in added work for contractors and grantees to comply with potentially diverging practices when contracting with different agencies. The EO could also give rise to potential disputes and uncertainty, since many of the issues that agencies are directed to address are already addressed in existing statutes and regulations – including, for example, the Prompt Payment Act and the implementing rules that already define the requirements of a “proper invoice,” as well as the statutes and FAR provisions requiring the Government to make accelerated payments to small businesses.

This EO also signals likely increases in terminations and reductions in scope, in addition to the significant number of terminations already announced by the DOGE. The EO’s clear expectation is that agency reviews will not be merely administrative but should identify existing contracts for termination or modification that do not meet the Administration’s broad policy objectives.

Finally, the EO is likely to delay (and potentially reduce) new contract and grant awards, particularly in the next 30 days while agencies are conducting their reviews. Delays and fewer awards could become extensive if agency heads are unable to keep pace with requests to approve contract awards while the required guidance on signing new contracts or modifying existing ones is developed. These delays and reductions could extend to forgoing anticipated option exercises or extensions, as agencies become reluctant to assume that a contract or grant meets the criteria to continue.

To navigate through these new requirements, contractors and grantees should focus on sound contract management and communication – for example, by providing fulsome support to justify payments in accordance with the requirements of their contract, timely claiming a right to interest for delayed payments, or, if payment is disputed, creating a record in the event the dispute becomes a claim. Contractors should also be attuned to descoping modifications that affect the cost or schedule of work that is not terminated and provide prompt notice of any such impacts. And, if work is terminated, contractors should be sure to take steps to protect their rights to pursue a termination settlement, to ensure that the contractor is fairly compensated and does not suffer as a result of the Government’s decision to terminate the contract for its convenience.

Jack Raineri, a Law Clerk in the Government Contracts practice, contributed to this alert.

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