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UNITED STATES
GENERAL ACCOUNTING OFFICE

REPORT TO THE CONGRESS

096935



NOV 10 1975

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



Status Of Shipbuilders' Claims For Price Increases:

- Settlement Progress
- Navy Claim Prevention Actions
- Need For Caution

Department of the Navy

Shipbuilders have submitted to the Navy 106 shipbuilding and other claims, totaling over \$1.6 billion, from 1967 to June 30, 1975.

During 1974, and through June 30, 1975, the Navy settled 28 claims totaling \$644 million for \$277 million. It has acted to prevent recurrence of events giving rise to claims.

Some Navy claim prevention actions will not necessarily eliminate inefficiencies or reduce costs, but rather may enable the contractor to recover costs directly under the contract.

PSAD-76-24

NOV. 5, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-133170

To the President of the Senate and the
Speaker of the House of Representatives

This report is the second in a series of reports on the causes of shipbuilders' claims against the Navy. It points out that reducing or eliminating claims does not necessarily signify that the Navy has corrected its own inefficiencies which are partly responsible for shipbuilding claims. It also cautions that certain Navy claim prevention actions may allow shipbuilders to recover additional costs caused by such inefficiencies without submitting a claim.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretary of the Navy.

Thomas B. Steeds
Comptroller General
of the United States

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ABBREVIATIONS

ASBCA Armed Services Board of Contract Appeals
DOD Department of Defense
GAO General Accounting Office
GFI Government furnished information
NAVMAT Naval Material Command
NAVSEA Naval Sea Systems Command
NAVSHIPS Naval Ship Systems Command
RDT&E research, development, test, and evaluation
SHAPM Ship Acquisition Project Manager
SUPSHIP Supervisor of Shipbuilding

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

STATUS OF SHIPBUILDERS' CLAIMS
FOR PRICE INCREASES:
--SETTLEMENT PROGRESS
--NAVY CLAIM PREVENTION ACTIONS
--NEED FOR CAUTION

D I G E S T

Shipbuilders have submitted to the Navy 106 shipbuilding and other claims--totaling over \$1.6 billion--from 1967 to the end of June 1975. These claims were made on the basis that the Government, by its actions or inactions, caused the contractor to perform work different from, or in addition to, that specified in the contract.

Because the Navy was unprepared to deal with this volume of claims, it had to devise (1) new settlement procedures to promptly settle claims and (2) corrective measures to prevent the recurrence of events that cause claims.

The Congress should recognize that causes of claims have not necessarily been corrected simply because future claims are eliminated or reduced. Some Navy claim prevention actions will not necessarily eliminate inefficiencies or reduce costs to the Government, but instead may merely enable the contractor to recover costs directly under the contract. (See p. 16.)

In considering requests for shipbuilding authorization and funds, the Congress may wish to assure itself that the Navy is taking actions to eliminate basic inefficiencies causing excessive costs.

GAO recommends that the Secretary of the Navy:

--Give priority to claim prevention measures aimed at correcting Navy inefficiencies and thus reducing costs to the Government, as opposed to changes in procurement policies which may prevent claims but not necessarily reduce costs. (See p. 16.)

--Monitor implementation and effectiveness of claim prevention actions taken by Naval Sea Systems Command and Supervisor of Shipbuilding levels. (See p. 16.)

--Monitor each Supervisor of Shipbuilding to identify disputes early and to assure that shipbuilders' claims and potential claims are promptly settled at the local level. (See p. 8.)

As of June 30, 1975, the Navy's total inventory of major shipbuilders' claims amounted to \$826 million.

During 1974, and through June 30, 1975, the Navy settled 28 claims totaling \$644 million for \$277 million. Settlement progress resulted primarily from:

--Organizational and procedural changes to more effectively evaluate and process claims. (See p. 5.)

--Increased number and quality of naval claims settlement personnel. (See p. 5.)

--Increased shipbuilder responsiveness in providing documentation supporting claims. (See p. 6.)

The Navy has instituted extensive corrective measures to prevent recurrence of events giving rise to claims. These measures deal with Navy inefficiencies, a direct cause of claims, and some Navy procurement policies which appear to have been indirect causes of claims. (See pp. 10 to 15.)

GAO concluded that, despite the disruptive effects and costs of the claims, they have had some beneficial effect. They have surfaced major Navy and contractor inefficiencies which both are now attempting to correct. Successful corrections should result in future cost savings in the ship construction program. (See p. 15.)

Claim prevention actions taken by the Navy hold considerable promise for reducing future claims. (See p. 15.)

The claim prevention actions relating to Navy inefficiencies, if effective, will reduce costs to the Government. GAO cautioned, however, that changes in procurement policies that do not correct the basic causes of claims could simply eliminate claims without eliminating related costs. (See p. 16.)

CHAPTER 1

INTRODUCTION

Shipbuilders' claims for price increases are based on the premise that Government action or inaction caused the contractor to incur higher costs because his work was different from, or in addition to, that specified in the contract. Claims have been a recurring element in Navy shipbuilding programs for many years, but since 1967 there has been a virtual explosion in the number and size of claims. During this period every major shipbuilder involved in the Navy's shipbuilding program in the last 10 years submitted claims. The Navy was not prepared to deal with this onslaught of claims and, consequently, the backlog of unresolved claims grew steadily-- from \$64 million in 1967 to a peak of nearly \$1.3 billion at the end of 1973.

Most of the claims arose under fixed-price contracts awarded in the 1960s when the Navy made increasing use of formally advertised fixed-price contracts for ship procurement. In earlier years the Navy used fixed-price contracts only for ship construction with relatively firm specifications and used cost-type contracts when there were many unknowns.

At the same time that fixed-price contracts were being increasingly used, shipboard hardware was becoming more complex, making it more difficult for the Navy to meet its commitments for equipment delivery to shipbuilders, and more costly for the shipbuilders to install it. In addition, the Navy became more concerned with improving noise reduction and resistance to shock damage, which caused unanticipated problems in ship construction and thus increased shipbuilders' costs. Since the fixed-price contracts did not provide much flexibility in contract price, contractors submitted claims to recover these unanticipated costs.

In February 1972 we issued a report to the Congress on shipbuilders' claims entitled "Causes of Shipbuilders' Claims for Price Increases" (B-133170). In that report, we identified the major causes of these claims and the measures being taken or planned by the Navy to prevent similar claims in the future.

The purpose of this report is to evaluate the effectiveness of present Navy efforts to settle outstanding shipbuilding and other claims and to help prevent future claims.

We did not attempt to determine the validity of amounts claimed by contractors or the reasonableness of the settlements made by the Navy.

CHAPTER 2

NAVY CLAIM SETTLEMENT EFFORTS

Navy policy recognizes the desirability of settling claims expeditiously. However, from 1967 to the end of 1973, Navy claims grew steadily to about \$1.3 billion and little progress was made in their settlement. Beginning in early 1974, the Navy took concerted action and began to make substantial progress in settling major claims. At June 30, 1975, claims totaling \$826 million were unsettled. The progress in claim settlement was attributed to a more refined system to deal with claims, increased manpower assigned to claims settlement efforts, and greater cooperation from contractors with respect to their formulation and documentation of claims submission.

STATUS OF CLAIMS

From July 1967 to June 1975, the Navy received 106 shipbuilding and other claims for price increase. As of June 30, 1975, these claims totaled \$1,614 million. A summary of claim submissions is presented in the following table.

<u>Calendar year</u>	<u>Claims received</u> <u>Number</u>	<u>Amount</u>	<u>Net claim adjustment</u> <u>(note a)</u>	<u>Total</u>
		(millions)		
1967	4	\$ 39.1	\$ -	\$ 39.1
1968	17	121.0	55.0	176.0
1969	25	336.9	71.3	408.2
1970	16	116.6	40.7	157.3
1971	31	405.1	8.6	413.7
1972	5	280.0	108.0	388.0
1973	3	29.4	(3.6)	25.8
1974 through June 30, 1975	<u>5</u>	<u>2.1</u>	<u>4.2</u>	<u>6.3</u>
Total	<u>106</u>	<u>\$1,330.2</u>	<u>\$284.2</u>	<u>\$1,614.4</u>

^aShipbuilders frequently adjust amounts after original submission.

Of the 106 claims, 67 were for amounts over \$1 million each; they totaled \$1,607 million, or more than 99 percent of the total claim submissions. This report deals primarily with those 67 major claims.

Every major shipbuilder doing business with the Navy during the past 10 years submitted claims during the 1967-74

period. For a detailed listing of major claim submissions, by contractor, see appendix I.

As of June 30, 1975, the Navy's inventory of unsettled shipbuilders' claims consisted of 11 claims totaling \$826 million. This total included nine claims for \$812 million under appeal to the Armed Services Board of Contract Appeals (ASBCA) and two claims for \$14 million pending before the U.S. Court of Claims. A detailed listing of outstanding claims is contained in appendix II.

CLAIMS SETTLEMENT PROGRESS

Navy policy recognizes the desirability of settling claims expeditiously. Its directive on this subject states, in part, that "delay in resolution of contractor claims can produce a serious impact upon the business relationship between the Navy and certain of its major contractors."

When claims were submitted in the earlier years, the Navy made little settlement progress because it was not prepared to deal with the large increase in the volume of claims that started to pour in beginning in 1967. Consequently, its claims backlog grew steadily from 1967 to the end of 1973. The following table shows the buildup of these claims.

<u>End of calendar year</u>	<u>Claims under review by the Navy</u>	<u>Claims under appeal to ASBCA or Court of Claims</u>	<u>Total claims outstanding</u>	<u>Claims settled</u>
	(millions)			
1967	\$ 39.1	\$ 25.2	\$ 64.3	\$ -
1968	215.1	17.9	233.0	-
1969	489.2	36.0	525.2	114.3
1970	551.5	76.9	628.4	79.2
1971	904.1	92.6	996.7	55.5
1972	680.7	525.2	1,205.9	43.8
1973	552.8	735.0	1,287.8	6.7
1974	281.9	693.5	975.4	318.5
^a 1975	-	825.8	825.8	325.3

^aAs of June 30, 1975.

Beginning early in 1974, the Navy began to make substantial progress in settling major claims and as of June 30, 1975, the Navy settled 28 claims--originally valued at \$644 million--for \$277 million. This total represents over two-thirds of the amount of all claims settled since 1967. The following chart shows a detailed breakdown of those settlements.

Settlements As Of June 30, 1975

<u>Shipbuilder</u>	<u>Program</u>	<u>Amount of Claim</u>	<u>Amount of Settlement</u>
		(millions)	
General Dynamics Corporation Electric Boat Division	Deep Submergence Research Vessel (AUTEC 1, 2)	\$ 2.7	\$ 1.4
General Dynamics Corporation Quincy Shipbuilding Division	Ammunition Ship (AE 26,27)	14.0	6.6
	Submarine Tenders (AS 36,37)	67.5	32.5
	Replenishment Oiler (AOP 1,2,3,4,5,6) (note 1)	78.4	30.0
	Dock Landing Ship (LSD 37,38,39)	48.8	21.0
	Dock Landing Ship (LSD-40)	8.1	
Interest, etc., applicable to the above		19.1	
Northwest Marine and Iron Works	Missile Range Instrumentation Ship (AGM 22)	1.0	3
Newport News Shipbuilding and Dry Dock Company	Attack Aircraft Carrier (CVA-67)	47.6	28.0
	Amphibious Command Ship (LCC 20)	45.7	15.5
	Amphibious Cargo Ship (LKA 113,114,115,116,117)	29.1	13.5
Bethlehem Steel Corporation Swarrows Point Yard	Ammunition Ship (AE 28,29)	49.6	17.0
	Oiler (AO 98/99)	2.6	1.5
Alabama Dry Dock and Shipbuilding Company	Submarine Rescue Ship (ASR 21,22)	14.2	5.0
Dillingham Shipyards	Ocean Minesweeper (MSO 433,445,446,449,456)	16.0	(b)
Ingalls Shipbuilding Division of Litton Industries, Inc.	Ammunition Ship (AE 32,33,34,35)	29.7	18.0
	Nuclear Submarine (SSN 639)	2.7	1.5
	Amphibious Assault Ship (LPH-12)	1.8	.4
Defoe Shipbuilding Company	Surveying Ship (AGS 31,33,34)	4.9	.9
	Guided Missile Destroyer (DDG 25,26,27)	4.0	2.0
	Destroyer Escort (DE 1047,1049,1051)	4.4	1.8
	Oceanographic Research Ship (AGOR 14,15)	2.7	.4
Avondale Shipyards Inc.	Destroyer Escorts - 20 ships (DE 1078 class)	122.0	80.0
	Destroyer Escorts - 7 ships (DE 1052 class)	47.1	
Total		<u>\$643.8</u>	<u>\$277.3</u>

^a These were three separate claims which were eventually combined and settled for a lump sum of \$30 million.

^b Claim was withdrawn by contractor following an agreement with the Navy for additional compensation under the terms of the contract. A \$1.2 million modification to the contract was later issued.

^c The above tabulation does not include claims filed by Lockheed Shipbuilding and Construction Co. for approximately \$160 million with respect to the construction of LPD 9-15 and DE-1057, 1063, 1065, 1069 and 1073.

FACTORS ACCOUNTING FOR CLAIMS
SETTLEMENT PROGRESS

Navy officials attribute the recent claim settlement progress to (1) a more refined system to deal with claims, (2) increased manpower assigned to claims settlement efforts, and (3) greater cooperation from contractors in their formulation and documentation of claims submissions.

Refined claim processing system

The foundation of the Navy's claims processing system is the claims settlement team. Separate claims teams--comprised of business, technical, auditing, and legal experts--are formed to investigate and evaluate each claim to determine what a contractor is entitled to recover. The Navy's policy is to permanently assign personnel to a claims team to follow the claim through to resolution. This enables team members to become familiar with details of the specific claims as well as the contractors' recordkeeping systems. A past problem has been frequent changes in Navy personnel assigned to claims which resulted in discontinuity and delays in claims processing. To evaluate the claim, the team follows formalized procedures which entail determining the cause and effect--the relationship between the alleged Government action and resultant damages to the contractor--for each element of the claim. Following their investigation, the team establishes a fully documented position on the claim. The team position is then reviewed for supportability by the Naval Sea Systems Command Claims Board which is comprised of senior officials of the contract and legal and technical offices of the Command. If a proposed settlement exceeds \$10 million, it must also be reviewed and approved by the Naval Material Command Claims Board, which is comprised of procurement executives designated by the systems' commanders. The Board is chaired by the Deputy Chief of Naval Material (Procurement and Production). No settlement on a claim within the jurisdiction of the Naval Material Command Claims Board can be made without Board approval. This approval is granted only after approval by the Chief of Naval Material and concurrence by the Assistant Secretary of the Navy (Installation and Logistics).

Increased Navy personnel
assigned to claims settlement

In addition to refining its claims processing system, the Navy has greatly increased the number of personnel assigned to claims settlement and appeals. Since 1972 the number of personnel assigned full time to claims settlement has increased almost threefold--from less than 100 to about 275.

Increased cooperation from contractors

For the Navy to properly evaluate a claim, it must be formulated and documented on the basis of cause and effect. According to Navy officials, one barrier to claims settlement in the past has been that contractors have submitted claims based on total cost or total time approaches; i.e., they have asserted that the Government was wholly responsible for all excess costs or for all delay. Lacking causal support and documentation, the Navy had great difficulty in evaluating such claim submissions and wasted much time trying to obtain the necessary documentation from the contractor. Part of the blame for total cost claim submissions, however, lies with the Navy, which in the past had accepted, reviewed, and analyzed such claims. Contractors in some cases did not understand the Navy's documentation requirements.

In 1973 the Navy established a new policy stating that total cost or total time claims would be rejected. The new policy outlined the criteria which should be used to judge the adequacy of claim documentation. According to Navy officials, establishing claims documentation requirements has resulted in better claims submissions which are more susceptible to evaluation.

To illustrate the importance of well-documented claims in reaching prompt claims settlement, Navy officials point to a recent settlement of a major claim by Newport News Shipbuilding and Drydock Company. The company submitted a properly documented claim which the Navy was able to settle in 10 months.

Increased settlement incentives

Although we believe that the factors discussed above have played an important part in claims settlement progress, there is more involved than refined procedures and better cooperation from contractors. The Navy appears to be more determined and more willing to reach settlements with shipbuilders.

There are indications that, in many cases the Navy's efforts to reach satisfactory settlements were characterized by excessive caution. Rather than making every effort to settle claims, the Navy often issued unilateral decisions for unrealistically low amounts relative to the value of the claim; this had the effect of deferring resolution of these claims since contractors almost always appealed such decisions to the Armed Services Board of Contract Appeals. Other claims were evaluated and proposed settlements reached with the contractors only to be disapproved by higher level review

authority. In some cases, such disapproval appears to have been warranted because of lack of support for the claim team position. In other cases, however, disapproval may have resulted from excessive caution by reviewing authorities.

The Navy now appears to recognize that, although appeal to the ASBCA is an appropriate course of action after all other efforts to settle have been exhausted, the ASBCA process is costly and lengthy, generally taking 2 to 6 years compared with 1 to 3 years for claims settled within the Navy. The Navy appears to be making greater effort to resolve claims with the contractor before allowing the claims to be appealed to the ASBCA. The Navy is also trying, with some success, to settle those claims currently before the ASBCA.

Top-level officials of the Department of Defense (DOD) and the Navy have established open lines of communication with shipbuilder claimants to assure the contractors that the Navy desires to settle claims and to explain the Navy's claim evaluation requirements with respect to documentation. In addition, top-level officials of the Naval Material Command have personally helped negotiate some major claims.

In summary, top level officials within DOD appear to have recognized the importance of clearing up the claims problem in order to alleviate its adverse effect on current business relationships with contractors. They have also showed great determination to settle claims under review by Navy claim teams and before the ASBCA.

Economic conditions

Navy officials attribute part of the recent settlement progress to the current economic conditions and the attendant high interest rates and cash flow problems experienced by some contractors. Because some contractors need money and recognize the steady decline in the dollar's value, they have been pressured to settle claims promptly.

Need for prompt resolution of disputes

A major claim generally represents an accumulation of many smaller, unresolved disputes, including alleged constructive changes and formal changes which were not resolved at the local level when they occurred.

The longer claims remain outstanding, the more difficult and costly they are to settle for both the Navy and the contractor. With the passage of time, reconstruction of events

surrounding the claim becomes more difficult because of the lack of available documentation and personnel associated with the program.

The Navy has recently taken some steps to promptly settle disputes. The Supervisors of Shipbuilding are documenting significant contract events as they occur and are maintaining files of significant events for each contract. These actions are (1) helping identify potential problem areas so the Navy can take prompt action toward resolution and (2) providing a record of events for the Navy to use in the event of a claim.

CONCLUSIONS

After several years of steady growth in its backlog of shipbuilders' claims, the Navy has recently made substantial progress in settling major claims. The principal factors are (1) a more refined and comprehensive Navy claims settlement system, (2) a greater cooperation from contractors in documenting their claims submissions along cause-and-effect lines, and (3) a recognition by the Navy that causing claims to be appealed to the ASBCA is not a practical solution to the problem because of the expense and time involved. We believe the Navy is trying harder to reach mutually satisfactory settlements with contractors.

We believe that many of the major shipbuilding claims could have been prevented if enough effort had been made to negotiate the individual disputes comprising these claims at the shipyards as they arose. The Navy appears to have recognized the importance of more prompt resolution of contract disputes by requiring the Supervisors of Shipbuilding (SUPSHIPS) to document significant events when a reasonable possibility exists of a claim being submitted by a shipbuilder. We believe, however, that the Secretary of the Navy should monitor situations developing to identify claims and aid the SUPSHIPS in early settlement of potential claims.

RECOMMENDATIONS

We recommend that the Secretary of the Navy monitor the efforts of the SUPSHIPS to assure that shipbuilders' claims and potential claims which lend themselves to early settlement are promptly resolved at the local level. The monitoring system should provide for early identification of disputes which cannot be readily settled by the SUPSHIP so that increased management attention from Naval Sea Systems Command and Naval Material Command officials can be assigned to the problem, if necessary.

AGENCY COMMENTS

DOD agreed with our recommendation.

CHAPTER 3

CAUSES OF CLAIMS

In their claim submissions, shipbuilders assert that they are due additional compensation--beyond that agreed upon--because the Navy failed to fulfill its responsibilities under the contract and thereby caused the contractors' design or production costs to increase.

The Navy acknowledges that some of the increased costs incurred by contractors were caused by its technical and contract administration inefficiencies and that the contractor is entitled to recover these costs through claims. The Navy contends, however, that some of the increased costs were due to factors other than Navy inefficiencies and are not properly recoverable by the contractor.

In our 1972 report on shipbuilders' claims, we identified five basic factors caused by Navy inefficiencies which resulted in increased costs to contractors.

- Late and inaccurate lead-yard working plans.
- Inadequate specifications.
- Defective, and late delivery of, Government-furnished equipment and technical information.
- Unanticipated increases in quality assurance requirements.
- Indiscriminate use of verbal constructive change orders.

As a result of our current review, we identified a number of other factors which resulted in increased costs incurred by contractors that do not appear to be properly recoverable.

Some of the more significant of these are:

- Seriously underpriced contracts.
- Inappropriate use of firm fixed-price contracts, which involved too many uncertainties and cost risks.

--Potential problems not identified and settled at an early stage resulting in unsupportable claims for cost increases.

--Contractors' inefficiencies resulting in additional costs.

The Navy has instituted corrective measures to prevent the recurrence of many of the factors which have caused claims. These measures include improvements in engineering, contract administration, and procurement policies. The most significant of these factors are discussed below. Appendix III contains a detailed listing of claims prevention actions and other Navy actions listed in our 1972 report and shows the status of those actions as of January 1, 1975.

CLAIM PREVENTION ACTIONS

Late and inaccurate lead-yard working plans

Often ships of the same class are constructed by more than one shipbuilder. In these circumstances one shipbuilder, called the lead-yard, is selected to construct the first ship of the class; that shipbuilder provides the detailed working plans to other shipbuilders, called follow-yards. If the working plans are inaccurate, the contractor must revise the plans before proceeding with construction. Late working plans can delay and obstruct construction effort. In either case, the contractor may incur increased costs.

Corrective measures taken by the Navy

To insure that the lead-yard has enough time to identify and correct deficiencies in its working plans and to provide that the follow-yard has enough time to review and adapt to lead-yard plans, the Navy has recently tested some innovations aimed at strengthening in-process verification of lead-yard working plans.

In the Patrol Frigate program, for example, the Navy contracted with a second shipbuilder to review the detailed drawings of the lead-yard in order to be prepared to serve as a follow-yard.

Inadequate specifications

Specifications contain detail technical requirements for ship construction and describe details concerning equipment to be installed. Defective or misleading Navy specifications have been a continuing factor in shipbuilders' claim submissions. According to shipbuilders, defective specifications

resulted in additional costs because new specifications had to be prepared to replace defective ones. This took more time and cost more money than was originally estimated. Contractors allege they have had to rip out and redo completed work found to be unacceptable because of defects in specifications.

Corrective action taken by the Navy

To upgrade the quality of specifications, the Navy has been offering specification writing courses for Navy personnel working in this area. The course is being upgraded for future use. A manual covering the preparation of specifications was completed in late 1971.

The Navy has completed a review of general ship specifications and has updated some of them. Navy officials said, however, the updating work has been delayed due to manpower and funding shortages. These factors also limited efforts to keep the data base current for a new Navy computer-aided ship specification program.

Defective and late delivery of Government-furnished equipment and technical information

In its shipbuilding contracts the Navy agrees to provide the contractor with various equipment for installation on ships when this is deemed to be in the best interest of the Government. When equipment or technical information is delivered late, shipbuilders' construction schedules and delivery dates may be affected. By the same token, when equipment is defective rework is required which, in turn, interrupts the shipbuilders' schedules for fabricating and installing supporting structures and service systems for the equipment.

Corrective action taken by the Navy

To eliminate delays and defects in Government-furnished equipment and information, the Navy now requires its ship acquisition managers to provide for fall-back options to be used if shipboard equipment still in the developmental stage does not meet cost, schedule, or technical requirements. Also, to control the availability of Government-furnished equipment, the Navy now requires the acquisition manager to submit quarterly status reports on equipment.

Unanticipated increases in
quality assurance requirements

The Navy and its contractors disagreed over whether the contractors could have reasonably been expected to anticipate and allow for increases in quality assurance requirements. On contracts let in the 1960s, the contractors' viewpoints have been that the Navy increased its requirements to a greater extent than anticipated. Navy officials feel that quality assurance problems occurred because of Navy attempts to eliminate laxity in enforcing requirements spelled out in the contract. In any event, quality assurance claims are often filed under the category of excessive and erroneous inspections.

Corrective action taken by the Navy

To eliminate variable enforcement of quality assurance specifications, the Navy has been conducting periodic audits of SUPSHIP offices to assure that quality assurance inspections are enforcing specifications uniformly.

To assure that contractors have a clear understanding of quality assurance requirements and that they can comply with these requirements, the Navy requires contractors to submit a satisfactory quality assurance management plan before awarding the contract.

Indiscriminate use of
verbal constructive change orders

Constructive change orders are changes not formally issued in writing; however, they have the effect of formal changes because they require the contractor to perform work different from, and in addition to, that prescribed by the original terms of the contract. These changes include verbal changes directed by inspectors and other Navy officials stationed at shipyards to oversee contractors' work. Shipbuilders contend that verbal constructive change orders are costly and have far-reaching effects because changes made by Navy personnel to one part of the ship can greatly affect the economies and efficiencies involved in the construction of the entire ship.

Corrective action taken by the Navy

Navy personnel having communication with the contractor have been trained to avoid constructive change orders thus assuring that contractual agreements are made only by a duly designated contracting officer. The Navy has also placed a

clause in shipbuilding contracts requiring the contractor to promptly notify the Navy if the contractor believes a constructive change has occurred.

Inability of the Navy and its contractors to promptly identify and settle contract disputes

According to Navy procurement officials, one of the major causes of claims has been the inability of either the Navy or contractors to identify potential requirements for contract price adjustments at an early stage and the lack of procedures to settle issues when they are small and knowledge of surrounding factors is current.

Corrective measures taken by the Navy

To surface issues and make management aware of contract problems early, the Navy developed a series of so-called anti-claims contract clauses which have been used in shipbuilding contracts since 1970. These clauses require contractors to notify the Navy whenever they feel the Navy has changed the contract. The notification must be filed within a specified number of days agreed to at the time of negotiation. Once notification is given, the clauses call for forward pricing of the changes. If this is not practicable, the contractor is required to maintain separate accounts for costs related to the change.

Improper acquisition techniques

Navy procurement officials blame much of the claims problem on past excessive use of fixed-price contracts which often required the contractor to accept too many unknowns, particularly under procurements involving concurrent development and production. Navy officials feel that these contracts did not provide enough flexibility in contract price to compensate contractors for unanticipated development and production problems. In addition, contracts often did not provide for a rate of inflation which shipbuilders experienced.

Seriously underpriced fixed-price contracts are another factor cited by Navy officials as contributing to claims. The Navy and its contractors have given many reasons for underpriced contracts, including so-called buy-ins by contractors during the 1960s, when competition was keen and contractors allegedly purposely bid too low to obtain Navy work. Navy officials also attribute unrealistically low bids to contractors' inadequate assessments of the technical risks involved in ship procurements.

On the other hand, contractors believe the Navy has consistently had insufficient funds for the ships and equipment it wants and has tried to pressure shipbuilders into accepting fixed-price contracts priced at unrealistically low levels, ignoring the contractors' higher cost estimates.

Corrective action taken by the Navy

The Navy has made many changes in its procurement policies which, for the most part, allow (1) more flexibility in the selection of contract types and (2) more elastic contract terms to allow for unanticipated development and production problems as well as uncertain economic conditions.

Some of the more important policy changes include:

- Increased flexibility in the type of contract used, including the use of cost-reimbursable contracts when the risks are sufficiently great. Firm fixed-price-type contracts were often used in the past for programs involving many unknowns. Generally the Navy now plans to use cost-type contracts for lead ships and fixed-price incentive contracts for follow ships.
- Expanded use of economic adjustment clauses to compensate for inflation in medium- to long-term contracts.
- More restrictive use of multiyear contracts.
- Increased emphasis on obtaining realistic contract prices and discouragement of unrealistically low contractor bids for fixed-price-type contracts.

Two recent procurements, the Patrol Frigate and TRIDENT class submarine programs, reflect some of the changes in procurement policy.

In the Patrol Frigate program, whose first production contract was awarded in October 1973, the lead ship is being constructed under a cost-reimbursable contract to reduce the shipbuilder's financial risk. The follow ships will be procured under fixed-price type contracts. In the follow ship contracts, the Navy plans to limit the contracts to 1 or 2 program years, thereby minimizing the exposure of the Navy shipbuilders to economic uncertainties.

The lead ship of the TRIDENT program was awarded in July 1974 under a fixed-price incentive-type contract. This type of contract places a greater risk on the contractor

than does a cost-reimbursable contract and, under current Navy procurement policy, would not normally be used for a lead ship. To minimize the contractors' risks, however, the Navy established the ceiling price at 152 percent of target cost to cover unanticipated developmental problems common to a lead ship. This price spread is a significant change to the Navy's former practice of establishing a ceiling price at an average of between 120 to 125 percent of a target cost. In addition, the TRIDENT contract contains economic adjustment provisions which are, in all likelihood, liberal enough to cover the contractors' increases in labor and material costs resulting from inflation.

BENEFITS OF CLAIMS

Despite the disruptive effects which claims have had on the business relationship between the Navy and its contractors and the time and expense involved in resolving claims, we believe claims have had some beneficial effects. First, claims have surfaced major Navy and contractor management inefficiencies which the Navy and its contractors are now attempting to correct. Corrective action should result in cost savings in the future. Second, the onslaught of claims has caused the Navy to refine its claim settlement procedures which should result in more prompt and equitable resolution of disputes in the future. Finally, claims have alerted the Navy and its contractors to the financial risks involved in long-term fixed-price shipbuilding contracts and to the need for tailoring the type of contract to the circumstances of the procurement.

Claims have also helped focus congressional and public attention on the wide variations between the prices negotiated on supposedly fixed-price contracts and the price ultimately paid when claims are finally settled.

Claims have had some beneficial effects, but we believe they are not in any sense desirable. On the contrary, we believe that the Navy and its contractors should make every effort to eliminate the problems which cause claims.

CONCLUSIONS

It is too early to measure the effect of the Navy's claim prevention measures since they involve current ship acquisitions and since claims generally do not surface until contract performance is substantially completed. We believe, however, that the Navy's claim prevention actions may reduce future claims.

Many of the claim prevention actions, if effective, will reduce costs to the Government. The claim prevention actions relating to greater use of cost-type contracts, however, will not necessarily reduce costs to the Government. Rather, by providing more flexible contract terms the Navy may help the contractor recover costs resulting from Navy or contractor inefficiencies without the need for submitting a claim and thus disclosing the existence of a problem area.

RECOMMENDATIONS

The Navy should guard against putting too much emphasis on use of cost-type contracts as opposed to solving any existing technical and management problems as a means of avoiding claims. The Secretary of the Navy should give priority to claim prevention measures aimed at correcting Navy inefficiencies and thus reducing costs to the Government, as opposed to changes in procurement policies which may prevent claims but not necessarily reduce costs.

We recommend that the Secretary of the Navy continuously monitor the implementation and effectiveness of claim prevention measures instituted at the Naval Sea Systems Command (NAVSEA) headquarters and the SUPSHIP levels.

AGENCY COMMENTS

DOD agreed with our recommendations and assured us that it will take the precautions pointed out in our report.

MATTERS FOR CONSIDERATION BY THE CONGRESS

In considering requests for shipbuilding authorization and funds, the Congress may wish to have the Navy explain actions taken to assure those relating to changes in procurement policies and procedures are not allowing contractors to recover (1) additional costs caused by their own inefficiencies or (2) costs caused by Navy inefficiencies without surfacing the problems involved for treatment.

CHAPTER 4

SCOPE OF REVIEW

We made our review at the Naval Sea Systems Command, the Naval Material Command, and two selected shipyards. We examined (1) the causes of shipbuilders' claims, (2) the Navy's procedures for settling claims, (3) the current status of claims, and (4) the types of actions which the Navy has instituted to avoid future claims. We interviewed cognizant Navy officials and representatives of shipbuilding companies which had submitted claims.

SCHEDULE OF CLAIMS OVER
\$1 MILLION SUBMITTED SINCE 1967

<u>Shipbuilder</u>	<u>Number of claims</u>	<u>Total amount claimed (millions)</u>
Alabama Dry Dock and Shipbuilding Company	1	\$ 14.2
American Shipbuilding Company	1	1.1
Avondale Shipyards, Incorporated	2	142.2
Bath Iron Works Corporation	1	1.7
Bethlehem Steel Corporation	3	55.7
DeFoe Shipbuilding Company	5	16.2
Dillingham Shipyards	1	16.0
General Dynamics Corporation (Electric Boat Division)	6	40.2
General Dynamics Corporation (Quincy Shipbuilding Division)	10	231.1
Ingalls Shipbuilding Division of Litton Industries, Inc.	8	557.1
Lockheed Shipbuilding and Construction Co.	9	205.0
National Steel and Shipbuilding Company	1	49.2
Newport News Shipbuilding and Dry Dock Co.	10	145.8
New York Shipbuilding Company	1	4.8
Northwest Marine and Iron Works Company	2	3.1
Tacoma Boat Building Company, Incorporated	3	6.3
Todd Shipyards Corporation	<u>3</u>	<u>117.3</u>
Total	<u>67</u>	<u>\$1,607.0</u>

SHIPBUILDING CLAIMS OVER \$1 MILLION
UNDER APPEAL AS OF JUNE 30, 1975

<u>Shipbuilder</u>	<u>Program</u>	<u>Amount of claim under appeal</u>		
		<u>Before the Court of Claims</u>	<u>Before the ASBCA</u>	<u>Total by contractor</u>
		(millions)		
Bethlehem Steel Corp.	Destroyers	\$ 1.6	\$ -	\$ 1.6
General Dynamics Corp., Quincy Shipbuilding Div.	Nuclear Submarines (SSN-638, 649)	12.3	-	12.3
Ingalls Shipbuilding, Div. of Litton Industries, Inc.	Nuclear Submarine (SSN-680, 682, 683)	-	31,2	-
	Impact claim (military and commercial programs involved)	-	103,5	-
	General Purpose Amphibious Assault Ship (claim is not against a specific vessel)	-	504.8	639.5
Lockheed Shipbuilding & Construction Company	Amphibious Transport Dock (LPD-9, 10)	-	36,5	-
	Amphibious Transport Dock (LPD-11, 12, 13)	-	37,2	-
	Amphibious Transport Dock (LPD-14, 15)	-	32,9	-

<u>Shipbuilder</u>	<u>Program</u>	<u>Amount of claim under appeal</u>		
		<u>Before the Court of Claims</u>	<u>Before the ASBCA</u> (millions)	<u>Total by contractor</u>
Merritt-Chapman & Scott (Formerly New York Ship- building Co.)	Destroyer Es- corts (DE-1057, 1063, 1065, 1069, 1073)	-	58.0	164.6
	Interest lost on 7 completed contracts	-	4.8	4.8
Todd Shipyards	Oceanographic Research ship (AGORIL)	-	3.0	3.0
Total amount of claims under appeal		<u>\$13.9</u>	<u>\$811.9</u>	<u>\$825.8</u>

STATUS OF NAVY IMPROVEMENT TASKS

Our 1972 report detailed a number of actions initiated by the Navy to preclude claims and improve the acquisition process. This appendix provides an update on the status of these actions.

CLAIM PREVENTION ACTIONS

<u>Improvement task</u>	<u>Status of task as of January 1, 1975</u>
Procure all ships of the same type from a single contractor and thus eliminate follow-yards. This was intended to eliminate problems associated with defective lead-yard working plans.	There is no trend at this point to indicate whether future ships of the same type will be procured from one single contractor. The Navy feels that single-source procurement, as a matter of policy and practice, is not always practical because of shipyard physical limitations. Also, Navy officials pointed out that the Navy may desire to contract with more than one contractor to construct ships of the same class in order to meet ship delivery schedules and maintain shipyard capability.
Eliminate delay and disruption claims and engineering efforts claims arising when a naval shipyard, acting as a lead-yard, experiences delays of such magnitude that the ship construction progress of the private shipyard, acting as a follow-yard, overtakes the progress made by the lead-yard.	Although this task refers to a naval shipyard acting as a lead-yard, there is a wider application to be made covering all lead-yard and follow-yard situations. Navy officials cite the procurement of the Patrol Frigate as an example of improvement in this area. Two contractors reviewed the designs for producibility before award of the lead-ship contract. The contractor not receiving the lead ship award has access to all subsequent detailed drawings to place him in a position to serve as a follow-yard. In addition,

Improvement task

Status of task as of
January 1, 1975

there is nearly a 2-year time lapse between contract award for construction of the lead ship and construction of the follow ship to allow time for proving the adequacy of those plans. The Navy's recent TRIDENT contract provides for a design review by a contractor other than the one receiving the lead ship award.

Conduct a professionally taught specification-writing course for Navy personnel involved in specifications.

This course has been taught three times (20 persons per class) since it was established. It was updated for continued use starting in the second quarter of fiscal year 1975.

Establish a board to review specification changes referred to it by the Ship Acquisition Project Managers (SHAPMs) to provide uniform acceptance or rejection of major changes.

A specifications review board was established in August 1969 and has met on a weekly basis since. Its purpose is to assess the impact which will result from specifications issued and changes to specifications. Ship specifications are not automatically reviewed, but may be referred to this board by the individual acquisition manager.

Provide for a formal design evaluation of ship specifications before contract award for major projects.

The review of technical documentation prior to award is accomplished under the policy prescribed in Naval Material Command (NAVMAT) Instruction 4000.31. In addition, the Navy issued Ship Systems Engineering and Design Department Instruction 4121.6, dated June 19, 1973, which calls for a formal preparation, review, and release procedure for ship specifications. Naval Ship

Improvement task

Status of task as of
January 1, 1975

Systems Command (NAVSHIPS) Notice 9110, dated May 14, 1971, provides policy relating to a formal preaward review and evaluation of the ship contract package. It states, in part, "For major SCN Ship Projects *** a final review and evaluation of the ship contract package shall be conducted by a review team headed by the SHAPM or his designated representative. The team shall insure that the package meets all the formally established operational requirements and the ship cost baseline, and is suitable for contracting proposed."

Review general shipbuilding specifications to identify those which require updating.

The review has been completed and ship specifications are being updated. The Navy cites lack of manpower and funding as causing a delay in the completion of this project.

Develop a computer system to aid in writing ship specifications.

The basic Computer-aided Ship Specification program has been developed. Specifications for the Patrol Frigate and the Sea Control Ship were written using this system. The Navy cites the need for adequate funding and personnel in order to maintain the currency of the system's data base.

Prepare a manual which specifically defines the requirements and procedures for preparing specifications for ships, systems, components or hardware, and engineering software.

The Specifications Preparation Manual has been completed. It provides requirements for the preparation and modification of general specifications.

Improvement task

Status of task as of
January 1, 1975

Clarify and update responsibilities for insuring the technical adequacy of specifications. The Navy plans to prepare an in-house directive to clearly define where the responsibility lies for determining the adequacy of specifications.

Naval Ship Engineering Center Instruction 4700.1A implements this action. Responsibility is assigned for each phase of specification preparation.

Study the feasibility of allowing prospective contractors to review and revise specifications prior to the award of the construction contract. If the study were to show that such a procedure is feasible, the Navy would provide bidders with the opportunity to evaluate specifications before contract award and to make changes, where appropriate, to avoid rework or delays during construction.

This task has been accomplished using two approaches. One approach involves having certain competitively selected contractors participate in design work--the Patrol Frigate and Sea Control Ship designs used this method. The second approach has the contractor developing the design, and later participating in development of final specifications after Navy review of the contractors' submissions.

Resolve technical problems on experimental ships before proceeding with construction.

According to the Navy, feasibility studies are being conducted regarding the building of a Test and Evaluation Ship to be used for resolving technical problems before reaching a production decision.

Develop policy of research, development, test, and evaluation (RDT&E) for new ship designs to insure that the latest developments can be incorporated into the new designs without causing unacceptable construction delays.

There is a requirement that all acquisition managers maintain liaison with the Navy's independent test agency early in the planning phase to define the RDT&E for new ship designs to insure that the latest developments will not cause construction delays.

Improvement taskStatus of task as of
January 1, 1975

Recognize a probable need for, and adequately plan for, fallback options to be applied when shipboard developmental systems or equipment do not meet schedule, cost, or operational or technical requirements.

The Navy has established a procedure requiring that a master plan be prepared identifying critical equipment and systems to ensure that the hardware meets schedule, operational, and technical requirements.

Improve procedures for prompt reporting of delays expected in Government-furnished material and information.

NAVSHIPS Instruction 7000.29c, dated October 9, 1973, establishes a standard Ship Project Directive System. This system is to be used by SHAPMs to control their project tasks. The instruction provides procedures for operating the system and lists report requirements.

Provide formal means to control the availability of Government-furnished information (GFI).

NAVSHIPS Instruction 4000.19, dated December 1, 1972, and subsequent revisions have established the basis for stating uniform GFI policy and establish a standard GFI management system. The Navy deemed it necessary to establish standardized procedures to minimize redundant procurements and, at the same time, assure the adequacy and availability of GFI.

Provide network diagrams of the relationship of major Government-furnished material and information and contractor-furnished material to ship progress.

Task has been completed.

Improvement task

Status of task as of
January 1, 1975

Develop a system which will give timely information on status and progress of Government-furnished equipment.

This has been implemented through the Ship Project Directive System which requires a quarterly status report on Government-furnished equipment.

Insure that a complete cost-benefit analysis is performed for each proposed change affecting a project in terms of cost, performance, schedules, training, and material availability prior to its approval and issue.

Appropriate NAVSHIPS Notices and Military Standard 480 require the use of a cost-benefit analysis on proposed changes including the points cited in the improvement task.

Develop criteria for determining what material should be furnished by the Government and the reasonableness of delivery schedules for such material.

Navy issued instructions which provides the criteria and sets forth the procedures to be followed for the acquisition and delivery of Government-furnished equipment and Government-furnished information for shipbuilding programs to meet contractual obligations.

Improve advance planning and contract completion interval estimates through the use of validated lead-time planning factors.

The Navy describes this as an ongoing process. With the market fluctuations, any validation of leadtime for material or manufactured products is relevant for short periods of time. Two steps have been initiated to facilitate improvement:

1. Increase in frequency of updating information.
2. Award of an outside contract for an analysis of trends in material leadtimes.

Improvement taskStatus of task as of
January 1, 1975

Insure that project configuration is controlled by the configuration management system to eliminate incompatibilities between Government-furnished equipment and ship systems being built by the contractor.

Formal configuration management requirements have been included in all shipbuilding projects and contracts awarded since late 1970. NAVSHIPS Notice 4130, dated June 10, 1970, established procedures for configuration control.

Implement only those changes during ship construction which are mandatory or which do not increase the cost and time requirements for ship acquisition.

Proposed changes are reviewed by the SHAPM change control boards to determine whether they are mandatory. Cognizant SHAPMs state that it is not always possible to eliminate changes that increase the cost and time requirements for ship acquisition.

Provide timely approval of contractor plans and drawings.

In April 1972 the Navy issued a manual which establishes uniform policies and procedures for reviewing and approving contractor plans and drawings. The manual outlines a systematic method for expediting the review and approval of the plans and drawings.

Develop a management information system for SHAPMs.

According to Navy officials, the SHAPM management information system is flexible enough to shrink or grow as the need arises. Ad hoc groups were established in 1969 to identify areas appropriate for standardization of Government-furnished equipment status reporting to SHAPMs by participating managers. Reporting needs were approved for Government-furnished material status and

Improvement task

Status of task as of
January 1, 1975

Improve procedures and monitor actions for effective implementation of quality assurance requirements.

variance reporting and for other areas. Full implementation for GFI is targeted for June 1975.

Implement added controls to prevent indiscriminate use of constructive change orders.

Requirements for quality assurance are provided in the contract specifications. The contractor is required to develop a quality assurance management plan which will demonstrate his capacity to comply with the specification requirements. Periodic audits of supervisors of shipbuilding offices are performed by NAVSEA to insure uniform application of requirements.

The Navy is training personnel in avoidance of constructive changes and is using a contract clause which requires a contractor to promptly advise the contract administrator should the contractor consider that a constructive change has occurred.

OTHER ACTIONSORGANIZATION-RELATED ACTIONS

Require fewer reports and management presentations from project managers to allow more time for program management.

Status of the task is uncertain.

Rotate the assignments of project managers at key milestones rather than at arbitrary periods and thus insure management continuity of the programs.

This task is being accomplished. Established procedures require a review by the Chief of Naval Material or Chief of Naval Personnel prior to relief or rotation of such personnel.

Improvement taskStatus of task as of
January 1, 1975

Establish within NAVSHIPS a position, Deputy Commander for Production, to coordinate activities of supervisors to shipbuilding at field locations with activities of project managers at headquarters locations.

With the consolidation of NAVSHIPS and Naval Ordnance Command into NAVSEA, four platform directorates were formed which will align SHAPMs with corresponding ship logistics divisions on the basis of ship type.

SUPSHIP management/coordination functions come under the Deputy Commander for Industrial and Facility Management.

Provide for organizational changes to achieve greater control over electromagnetic tactical warfare systems placed aboard surface ships and submarines.

This has been accomplished. The Chief of Naval Material has designated the Naval Electronics Systems Command as the lead systems command and the Naval Material Command as the focal point for Tactical Electromagnetic Programs.

Assign the people most talented in business management to the most crucial weapons systems programs.

The Navy reports that effort has been made to recruit the best qualified people for the critical programs.

Provide for a strong independent review at the Chief of Naval Material Command level of all business aspects of high-dollar-value contracts and thus provide a check and balance in the Navy's procurement system.

This task is accomplished through the use of business clearance procedures.

PROCUREMENT-RELATED ACTIONS

Provide for a contracting technique designed to allow for pauses in the development and production of an end item at certain preselected points

The recent slowdown in the pace of the Surface Effect Ship program is cited by the Navy as an example of its attempt to have a more orderly

Improvement task

Status of task as of
January 1, 1975

where meaningful testing can be performed and observed, which would allow the Navy the opportunity to consider test results and to make an informal decision regarding how to proceed.

development effort, and allowing testing of critical components prior to the start of construction.

Provide a management tool to aid in assessing the technical problems involved in procurement, determining the amount of effort needed to solve the problems and considering the possible consequences of failing to solve the problem.

The Navy uses the Engineering Change Proposal as the management tool to determine the impact of technical problems, scope the impact of the solution of the problem and define the consequence of failing to solve the problem.

Adopt measures to insure adequate cost control of major shipbuilding programs. This will be accomplished through the use of cost-control studies, and diligent procurement management and managerial review.

The increasing use of DOD Instructions 7000.2 and 7000.10 is a help to provide better cost control. "Should cost" studies are done in the form of determining the reasonableness of contracting costs.

Improve Navy policy and procedures instructions so that project managers will purchase only required data.

NAVSHIPS Instruction 4000.15A, dated 10 September 1971, sets out policies and responsibilities for data management. Efforts are still being directed toward procuring minimum essential data at the lowest cost.

Provide for wider use of parallel development. Under parallel development, two or more contractors attempt to develop the same type of ship or equipment. Then, at a specified time, the Navy chooses one of the contractors to proceed with the production phase.

Both the Surface Effect Ship and the Guided Missile Destroyer programs provide for parallel development by competing contractors.

<u>Improvement task</u>	Status of task as of <u>January 1, 1975</u>
Develop standards for full analyses of the impact of ship construction changes and eliminate those proposed changes which are of marginal value.	This task is being accomplished through the SHAPMs' Change Review Board and the individual SHAPM.
Develop contractual provisions to place more responsibility on contractors for defects in ship specifications and other problems encountered during ship construction.	Both the DD-963 and LHA contracts with Litton's Ingalls Shipbuilding Division are under a "Total Systems Responsibility" clause. The AOR-7 contract with National Steel makes use of the patent and latent defects clause under which the contractor is responsible for any patent defects in working drawings and other technical data developed by another shipbuilder for the AOR-7 production. Under this contract the Government will assume responsibility for latent defects.
Develop a contract provision allowing the Government flexibility in delivering Government-furnished equipment to shipbuilders.	Some flexibility is provided in a contract clause which stipulates that the delivery of Government-furnished equipment will be "x" number of days prior to the delivery date of the ship. If the delivery date for the ship changes, so does the delivery date for Government-furnished equipment. Navy officials state that at times contractors will not accept the use of this clause; in those instances, a clause must be used stating delivery as "not later than."

Improvement taskStatus of task as of
January 1, 1975

Provide uniform ship construction contract clauses.

Constant attempts have been made to accomplish this task, but according to Navy officials it is not possible to do this in all cases. Given today's market conditions each contract is tailored to suit individual circumstances.

PERSONNEL-RELATED ACTIONS

Establish career development program for weapon systems managers.

A career management program for military officers has been established in order to develop a pool of highly qualified officers to staff project offices. The Office of Civilian Manpower Management, with assistance from NAVMAT, has initiated action to establish such a program for civilian personnel.

Provide for the selection of project managers by selection boards and for recognition of the position of major project manager as being of command equivalency.

Requirements have been established that project managers be chosen by selection boards and that the major project manager position be recognized as command equivalent. About 25 projects have been so designated.

Establish contract management courses for Navy personnel, including a three-semester course in project management at the Naval Post Graduate School and a military/civilian procurement degree program at the University of Michigan and the George Washington University.

A Systems Acquisition Management course has been taught at the Naval Postgraduate School in Monterey, California, since 1970-71. The course, which covers three semesters, leads to a master's degree in management. A 12-month course in procurement at George Washington University leads to a master of business administration degree.

<u>Improvement task</u>	Status of task as of <u>January 1, 1975</u>
Have the Logistics Management Institute study Navy contract administration organization.	This task has been accomplished and a report was issued in August 1973.
Assign flag officers to major Systems Command contract offices.	Flag officers have been and are being assigned as Deputy Commander for Contracts on a continuing basis.
Establish 38 Navy procurement billets for junior supply corps officers to insure an adequate flow of young regular officers with appropriate procurement backgrounds.	There are currently 33 procurement billets in existence and staffed by junior supply officers in a training capacity.
Establish nonsupervisory negotiator positions at the GS-14 through GS-16 levels.	There is one GS-14 assigned to the SSN-688 submarine program. Two nonsupervisory GS-15s are assigned to the DD-963, LHA, Aircraft Carrier, Patrol Frigate, and Sea Control Ship programs.
Assign flag officer to major SUPSHIP offices.	This task was accomplished at two SUPSHIP offices-- Newport News and Pascagoula. However, the reduction of Navy strength, including a reduction in the number of flag officers, has resulted in the flag incumbents being replaced by Captains.



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20350

21 JUL 1975

Mr. R. W. Gutmann
Director, Procurement and Systems
Acquisition Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Gutmann:

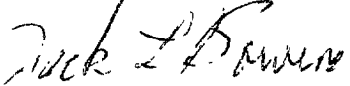
The Secretary of Defense has asked me to reply to your letter of 5 May 1975 which forwarded GAO's draft report on the status of shipbuilders' claims for price increases (GAO Code 950141, OSD Case #4083).

In general, the report is considered to fairly and accurately portray the Navy claims position and actions taken to both resolve and prevent these claims. With regard to GAO's recommendations, the Navy and the Naval Sea Systems Command have taken and will continue to take the precautions cited by GAO.

A revised page 8, which contains current information concerning the General Dynamics Corporation and Avondale Shipyards claims, is forwarded for consideration in the preparation of your final report to Congress. Specific comments concerning editorial changes to certain pages were informally provided to your staff.

I appreciate this opportunity to comment on your draft report.

Sincerely,


Jack L. Bowers
Assistant Secretary of the Navy
(Installations & Logistics)

<u>Shipbuilder</u>	<u>Program</u>	<u>Amount of Claims</u> - - - (millions) - - -	<u>Amount of Settlement</u> - - -
General Dynamics Corporation (Quincy Shipbuilding Division)	Dock Landing Ship (LSD 37, 38, 39)	\$ 48.8	\$ 21.0
	Dock Landing Ship (LSD-40)	\$ 8.1	
	Interest, etc., applicable to the above	\$ 19.1	
Avondale Shipyards, Inc.	Destroyer Escorts - 20 ships (DE 1078 class)	\$122.0	\$ 80.0
	Destroyer Escorts - 7 ships (DE 1052 class)	\$ 47.1	
Total		\$245.1	\$101.0

Remarks: The above tabulation does not include claims filed by Lockheed Shipbuilding and Construction Co. for approximately \$160 million with respect to the construction of LPD 9-15 under contracts Nobs 4660, 4765 and 4902, and DE-1057, 1063, 1065, 1069 and 1073 under contract Nobs 4785. On 29 January 1971 these claims were tentatively settled by NAVSHIPS for \$62 million subject to approval by the Chief of Naval Material and the Assistant Secretary of the Navy (I&L). Such approval was never given and Lockheed appealed to the Armed Services Board of Contract Appeals (ASBCA) in June 1973 (Appeal No. 18460) claiming that it was entitled to the \$62 million agreed upon settlement, and in the alternative, to the full \$160 million. The ASBCA in a decision released 14 May 1975 held that although the failure of the Navy officials to approve the tentative settlement did not constitute a binding contractual obligation, the Government was nevertheless estopped to deny its validity by virtue of representations made by the then Deputy Secretary of Defense Packard, that the ship claim was part of an overall plan to settle Lockheed's disputes involving the C-5A, the Cheyenne and SCRAM contracts. The Navy in the course of preparation for trial discovered evidence that called for further investigation whether fraudulent misrepresentations were made by Lockheed with respect to the filing of the claim. This has been referred to the Department of Justice.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF DEFENSE
AND THE DEPARTMENT OF THE NAVY
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

James R. Schlesinger	July 1973	Present
William P. Clements, Jr. (acting)	May 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
Clark M. Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Mar. 1968

ASSISTANT SECRETARY OF DEFENSE
(INSTALLATIONS AND LOGISTICS):

John J. Bennett (acting)	Apr. 1975	Present
Arthur J. Mendolia	June 1973	Mar. 1975
Hugh McCullough (acting)	Feb. 1973	June 1973
Barry J. Shillito	Feb. 1969	June 1973
Thomas D. Morris	Sept. 1967	Jan. 1969
Paul R. Ignatius	Dec. 1964	Aug. 1967

Tenure of office	
From	To

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

J. William Middendorf	June 1974	Present
John W. Warner	May 1972	June 1974
John H. Chafee	Jan. 1969	May 1972
Paul R. Ignatius	Aug. 1967	Jan. 1969
Charles F. Baird (acting)	Aug. 1967	Aug. 1967
Robert H. B. Baldwin (acting)	July 1967	Aug. 1967

ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND LOGISTICS):

Jack L. Bowers	June 1973	Present
Hugh Witt (acting)	May 1973	June 1973
Charles L. Ill	July 1971	May 1973
Frank Sanders	Feb. 1969	July 1971
Barry J. Shillito	Apr. 1968	Jan. 1969
Vacant	Feb. 1968	Apr. 1968
Graeme C. Bannerman	Feb. 1965	Feb. 1968

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