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United States General Accounting Office

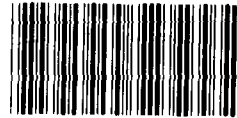
Report to the Congress

GAO

April 1986

NAVY CONTRACTING

Status of the 1978 Shipbuilding Claim Settlement at Electric Boat



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**Comptroller General
of the United States****B-197665**

April 23, 1986

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

This is our sixth report on the status of two SSN-688 class attack submarine contracts (N00024-71-C-0268 and N00024-74-C-0206) that were awarded to General Dynamics Corporation and that were modified in 1978 under the authority of Public Law 85-804. This report covers the period from July 3, 1983, through December 22, 1984.

Section 821 of the Department of Defense Appropriation Authorization Act, 1979 (Public Law 95-485), authorizes the Comptroller General to perform reviews and to report to the Congress on the status of the contracts. These reviews are to insure that funds authorized to provide relief under Public Law 85-804 in the 1978 claims settlement are used only in connection with the two contracts and that General Dynamics, the prime contractor, does not use such funds to realize any total combined profit on the contracts. As requested by the former Chairman of the House Committee on Armed Services, this report also contains information on the extent to which kickbacks by subcontractors to former General Dynamics officials may have affected the two SSN-688 contracts.

In June 1978, after years of disagreement over \$544 million of shipbuilding claims, filed by General Dynamics Corporation's Electric Boat Division, relating to construction of nuclear attack submarines, the Navy and the contractor agreed to a settlement based on an estimated cost at completion of \$2,672 million, which included \$3.9 million for change orders in process. The agreement was reached under Public Law 85-804, which allows the President to modify contracts in the interest of national defense without regard to certain other laws.

The settlement provided that an estimated loss of \$843 million over the remaining life of the contracts would be covered as follows: (1) the contract price would be increased by \$125 million to cover existing claims against the Navy, (2) the contractor would absorb a \$359 million loss over the remaining submarine construction period, and (3) the Navy would pay another \$359 million under the authority of Public Law 85-804. Cost overruns beyond the estimated cost at completion of \$2,672 million would be divided equally up to a total of \$100 million with costs above that figure being the total responsibility of General Dynamics. Cost underruns would be shared equally.

We conducted our review at the Electric Boat Division of General Dynamics Corporation and at the Office of the Supervisor of Shipbuilding, Conversion and Repair, U.S. Navy, in Groton, Connecticut. We reviewed Electric Boat cost records and Navy payment records, as well as other documents pertaining to the two contracts for the period reviewed. We did not assess the reliability of computer-generated data the contractor provided from its contractually required cost reporting system. We had previously assessed the results of the Defense Contract Audit Agency's (DCAA's) operation audits that evaluated the adequacy of Electric Boat's management control systems and the reliability of the contractor's cost accounting records. During this review, we updated the information and we believe that DCAA's monitoring of contractor operations and of costs incurred is sufficient to assure that costs charged to the SSN-688 contracts are correct and that the contractor is complying with the settlement terms.

We also reviewed DCAA's audit of Electric Boat's progress payment requests for the -0206 contract for the year ended December 31, 1983. DCAA audits the progress payments to ensure that the contractor is following the billing procedures agreed to in the 1978 claims settlement and that Electric Boat's share of the loss is being absorbed through reductions in progress payments. DCAA stopped reviewing payments under contract -0268 in 1982 because it was essentially complete. Our review was made in accordance with generally accepted government auditing standards.

We determined that Electric Boat, as of December 22, 1984, was in compliance with the 1979 Defense Appropriation Authorization Act. Specifically, we found that:

- Funds provided under the Public Law 85-804 settlement were being used only in connection with the specified contracts. (See p. 3.)
- Electric Boat Division continued to project an overall loss (see table 2, p. 5) and General Dynamics has written off losses on these contracts amounting to \$487.9 million since the settlement in June 1978. (See p. 4.)
- The contractor has absorbed, through reduced progress payments, the entire \$359 million loss required by the terms of the settlement. (See p. 4.)
- Electric Boat has overrun the contracts' ceiling prices by more than \$100 million and, as required by the settlement, was absorbing 100 percent of the cost overrun over that amount. (See table 2, p. 5.)

- All 18 submarines required by these contracts have been delivered. (See p. 8.)

In July 1984, a subcontractor official was convicted in federal court of paying kickbacks to two former General Dynamics officials on shipbuilding contracts at Quincy and Electric Boat shipyards around the time of and subsequent to the 1978 claims settlement. DCAA could not determine whether any of the identified kickbacks were specifically associated with the settlement contracts. However, by allocating the total amount of kickbacks to all contract work at Electric Boat during the affected time period, DCAA concluded that the cost estimates used as a basis for the 1978 settlement contracts may have included \$127,381 in illegal payments. (See p. 6.)

As of June 1985, the Department of Justice was pursuing civil actions in U.S. and Swiss courts to recover more than \$1.8 million from the individuals charged with receiving the kickbacks. (See p. 7.)

The following sections discuss the use of authorized funds, the combined profit/loss position, the effect of kickbacks, and other matters in more detail.

Use of Authorized Funds

In our reviews of the settlement contracts, authorized funds were considered to have been used in connection with the specified contracts if the amounts Electric Boat expended were in excess of the reimbursements received. As of December 22, 1984, Electric Boat had incurred \$144.4 million of costs in excess of the absorbed loss and amounts billed the government. (See table 1.) This amount included \$76.3 million DCAA questioned as potentially unallowable under the cost principles of the Defense Acquisition Regulation (DAR). If the \$76.3 million is disallowed, unreimbursed allowable costs will total \$68.1 million. Therefore, we conclude that the contractor continues to use settlement funds only in connection with the contracts covered by the settlement.

Table 1: Unreimbursed Contract Costs

Dollars in millions			
	Contract ^a		Total
	-0268	-0206	
Incurring costs	\$1,061.7	\$1,960.5	\$3,022.2
Less: Progress payments billed	-887.5	-1,522.7	-2,410.2
Extraordinary escalation billed or authorized ^b	-7.0	-101.7	-108.6
Unreimbursed costs	167.2	336.2	503.4
Less: Absorbed loss ^c	-136.0	-223.0	-359.0
Unreimbursed costs after absorbed loss	\$31.2	\$113.2	\$144.4

^aFigures may not total due to rounding.

^bExtraordinary escalation is the additional cost to be paid by the Navy which is attributable solely to inflation above that included in the \$2,672 million estimated cost at completion at the time of the 1978 settlement.

^cSettlement provides that the contractor will absorb an estimated loss of \$359 million over the remaining construction period.

Projected Loss on Contracts Up Substantially From Settlement

As of December 22, 1984, Electric Boat's estimated cost at completion for the contracts was \$3,026 million. After adjustments for contract modifications and for extraordinary escalation experienced since the settlement, we determined that Electric Boat was overrunning these contracts by \$175 million. In accordance with the cost sharing provision of the settlement, the government and the contractor share equally the first \$100 million of cost overruns. All costs above this amount are the sole responsibility of the contractor. Thus, Electric Boat will absorb \$125 million of the projected cost overrun. When added to the settlement loss of \$359 million, Electric Boat is projecting a loss of \$484 million (see table 2, p. 5). In the years since the settlement, General Dynamics has recognized estimated losses of \$487.9 million relating to these contracts on its financial statements.

Table 2: Estimated Loss at Completion

	Contract ^a		Total
	-0268	-0206	
Dollars in millions			
Estimated cost at completion as of December 22, 1984	\$1,064	\$1,962	\$3,026
Less: Contract modifications at ceiling price ^a	-17	-53	-70
Extraordinary escalation forecast ^a	-7	-102	-109
Estimated cost for sharing purposes	1,040	1,807	2,847
Estimated cost at completion at time of 1978 settlement ^b	-1,011	-1,661	-2,672
Cost overrun before sharing	29	146	175
Navy sharing of overrun—50% up to \$100 million	14	36	50
100% of overrun to be absorbed by contractor	15	110	125
Estimated loss at completion of 1978 settlement to be absorbed by contractor	136	223	359
Estimated loss at completion as of December 22, 1984	\$151	\$333	\$484

^aTo determine the estimated cost at completion for sharing purposes, the estimate was reduced by the costs for contract modifications at ceiling price and extraordinary escalation forecast from January 1978 to the estimated completion dates of the two contracts. This reduction was made to convert total estimated cost to a basis consistent with the estimated cost at completion prepared at the time of the settlement. Like extraordinary escalation, contract modifications at the ceiling price are also to be paid by the Navy.

^bThe \$2,672 million estimated cost at completion at the time of the settlement includes a \$3.9 million ceiling price of contract modifications in process and adjudicated as part of the settlement.

Kickbacks and the Contracts

In July 1984, an official of a company that was an Electric Boat subcontractor was tried and convicted in federal court on 14 counts of racketeering and conspiracy, including payment of kickbacks to two former General Dynamics officials. The kickback scheme involved the diversion of over \$5 million in funds during the 1970s from Frigitemp Corporation, a now bankrupt company but former subcontractor on General Dynamics' shipbuilding contracts at Quincy and Electric Boat shipyards. Some of the bribes were paid to the General Dynamics officials around the time of the 1978 claims settlement.

In a prior report (GAO/NSIAD-84-83, May 18, 1984), we referred to the federal grand jury indictment preceding the trial. We reported that the possible relationship between the kickbacks and Public Law 85-804 settlement funds could not be determined at that time and that the Navy was conducting an investigation to determine the effect, if any, on the submarine contracts at Electric Boat.

As part of its investigation, the Navy requested DCAA to quantify the amount of subcontractor payments that was in excess of value received by General Dynamics. Such excess payments were presumably used to fund the kickbacks paid to the two former General Dynamics officials. DCAA concluded that it was not possible to determine the excess value, if any, included in each subcontract. Rather, DCAA relied on the Anti-Kickback Act (41 U.S.C. 51), as interpreted by the Federal Acquisition Regulation (Clause 3.502(a) (3)), which creates a "conclusive presumption" that the cost of prohibited payments has been included in the price of the subcontract or order and ultimately borne by the government. DCAA noted that the law did not require the government to bear the added cost of tracing transactions and measuring value to such a degree that the cost of recovery itself becomes prohibitive.

Relying on this conclusive presumption, DCAA allocated the amount of kickbacks applicable to specific contracts using a ratio determined by dividing the amount of the kickbacks by total payments to General Dynamics for Navy and civil work assumed to be affected by the kickbacks. In other words, the total amount of embezzlement was spread evenly over the total business conducted between the subcontractor and General Dynamics, as identified in the grand jury indictment.

Using this methodology, DCAA estimated that \$249,240 of the total \$5.4 million embezzlement could be allocated to various Navy contracts with Electric Boat. It also estimated that \$127,381 of the \$249,240 was allocable to one of the contracts (-0206) involved in the 1978 settlement. The remaining amount, \$5.2 million, was assumed to be applicable to business conducted between the subcontractor and General Dynamics' Quincy Shipbuilding Division. Based on this methodology, DCAA concluded that the cost estimates used as a basis for the Public Law 85-804 settlement may have included \$127,381 in illegal payments.

DCAA did not conclude, however, that kickbacks were actually made with settlement funds because there is no way to identify the kickbacks to particular contracts. Consequently, an audit finding that settlement funds were misapplied is not possible. With respect to the kickbacks, Navy officials stated that the government's interests were being protected by the Department of Justice, which had filed a civil suit seeking restitution of the illegal payments from the individuals involved in the scheme.

Government Acts to Recover Kickbacks

In February 1984, the Justice Department filed a civil action under the Anti-Kickback and False Claims Acts against the individuals charged with making and receiving kickbacks. The government is seeking to recover more than \$1.8 million of the kickbacks paid. As of February 1986, this civil action was still pending in a U.S. District Court.

The government is also seeking to recover kickback monies through a civil attachment against a Swiss bank account. Government efforts to overturn an adverse Swiss court ruling in this action are still in process in Switzerland.

No actions have been brought against General Dynamics by the government concerning the kickbacks. However, the Trustee-in-Bankruptcy of the Frigitemp Corporation has brought suit against a number of defendants, including General Dynamics, to recover funds for the estate of the bankrupt company. The trustee's action was brought under the civil provisions of the Racketeer Influenced and Corrupt Organizations (RICO) Act, which allows any person injured by reason of violation of RICO prohibited activities to sue for treble damages.

General Dynamics moved for a dismissal of the case in a U.S. District Court in Delaware. Denying General Dynamics' request, the Court, in April 1984, decided that a prime contractor can be held civilly liable under RICO for racketeering activity of its officers.

The trustee's action was transferred in July 1984, from Delaware to the U.S. District Court for the Southern District of New York. The government's action was transferred in July 1985, from the District of Massachusetts to the Southern District of New York. In September 1985, the District Court denied a motion submitted by two of the defendants to consolidate the government's civil action with the trustee's action.

We discussed the option of a government suit against General Dynamics under RICO civil remedies with the Justice Department. According to the Department's Civil Division officials, the government has no basis to proceed against General Dynamics with a RICO civil action at present.

Costs Associated With Fraud Investigations

Recognizing that many investigations of alleged fraudulent activities were ongoing and that General Dynamics had incurred and planned to incur costs for legal, professional, and other services related to the investigations, the Navy's Corporate Administrative Contracting Officer requested on November 21, 1984, that General Dynamics immediately

segregate all costs associated with each investigation and withhold billing these costs to government contracts. This request was pursuant to DAR 15-205.52.

This section generally states that costs incurred in connection with defense against fraud investigations and suspension or debarment type actions are unallowable when the proceedings or investigations result in an adverse ruling against the contractor. The section specifies procedures to be followed during the pendency of any proceedings or investigations. Defense costs are to be differentiated and accounted for by the contractor so as to be separately identifiable. The contracting officer should then generally withhold payment of such costs, or, in appropriate circumstances, provide for conditional payment after taking steps to protect the government's interest.

The Navy, after Electric Boat disagreed with the government's request, asked DCAA to estimate the costs to be segregated. DCAA estimated the costs related to defense of fraud proceedings, as defined in DAR 15-205.52(c), for calendar years 1984 and 1985 as \$1,103,000 and \$2,539,000, respectively. Based on this report, the Navy began withholding contract payments in February 1985.

Subsequent negotiations between Electric Boat and the Navy concerning the application of the DAR requirements produced a signed Memorandum of Understanding, dated May 10, 1985. According to this agreement, Electric Boat would segregate costs relating to government investigations and if such costs were subsequently determined to be unallowable, it would repay those costs plus interest. After the agreement was signed, the Navy ceased withholding of such costs, and returned previously withheld payments.

The Navy's actions in the application of Defense guidance on contractor costs associated with fraud investigations appear to have been timely and effective.

Final Submarine Delivered

As of December 22, 1984, Electric Boat had delivered all 7 ships under contract -0268 and all 11 ships under -0206 to the Navy. A comparison of the 1978 negotiated delivery dates with the actual delivery dates is provided in appendix II.

Electric Boat and Agency Comments and Our Evaluation

Electric Boat stated (see app. III) that since all the ships required by the two contracts have been delivered to the Navy and the guarantee period has expired on the last ship, there is no possibility that Electric Boat will realize any profit on these contracts. While a final profit/loss determination can only be made upon final settlement of the contracts, we agree that Electric Boat will not realize a profit on these contracts, as indicated by our loss projection in this report.

Electric Boat believes that certain sections in this report are not related to the legislative requirement and purpose of our work and should be deleted. Electric Boat stated that (1) based upon the losses General Dynamics has incurred on the two contracts, the alleged kickback scheme by a former corporate employee could have no possible impact on the use of Public Law 85-804 settlement funds and (2) there was no basis for including the section on segregation of costs because the subject costs could have no possible impact on the use of Public Law 85-804 funds.

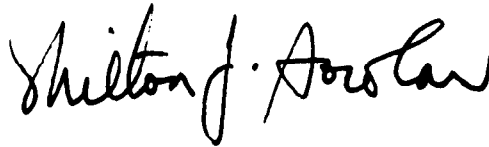
We believe our audit authority and responsibilities clearly extend to reporting on any significant developments affecting these contracts. One of the objectives of our audit—as specified in the 1979 Defense Appropriation Authorization Act—is to insure that the Public Law 85-804 settlement funds are used only in connection with the specified contracts. Any suspected diversion of such funds for noncontractual purposes (as in a kickback scheme) is germane to this requirement.

Electric Boat also submitted an updated version of the contractual delivery dates for the subject contracts. This information has been incorporated as appendix II.

The Department of Defense agreed with the report's facts and conclusions. (See app. IV.) The Department of Justice had no substantive comments on material relating to its actions to recover kickback monies. (See app. V.) Justice provided updated information on the status of the trustee's and the government's actions, which we incorporated in the report.

Since the contracts are essentially complete and a combined profit will not be realized, we do not anticipate any further reporting on this matter. However, we will periodically examine the status of the contracts and a report will be prepared if we identify any significant issues.

We are sending copies of this report to the Chairmen, Senate and House Committees on Armed Services; the Chairman, Subcommittee on Seapower and Strategic and Critical Materials, House Committee on Armed Services; Senator William Proxmire; and the Chairman, General Dynamics Corporation.



Milton J. Socolar
Acting Comptroller General
of the United States

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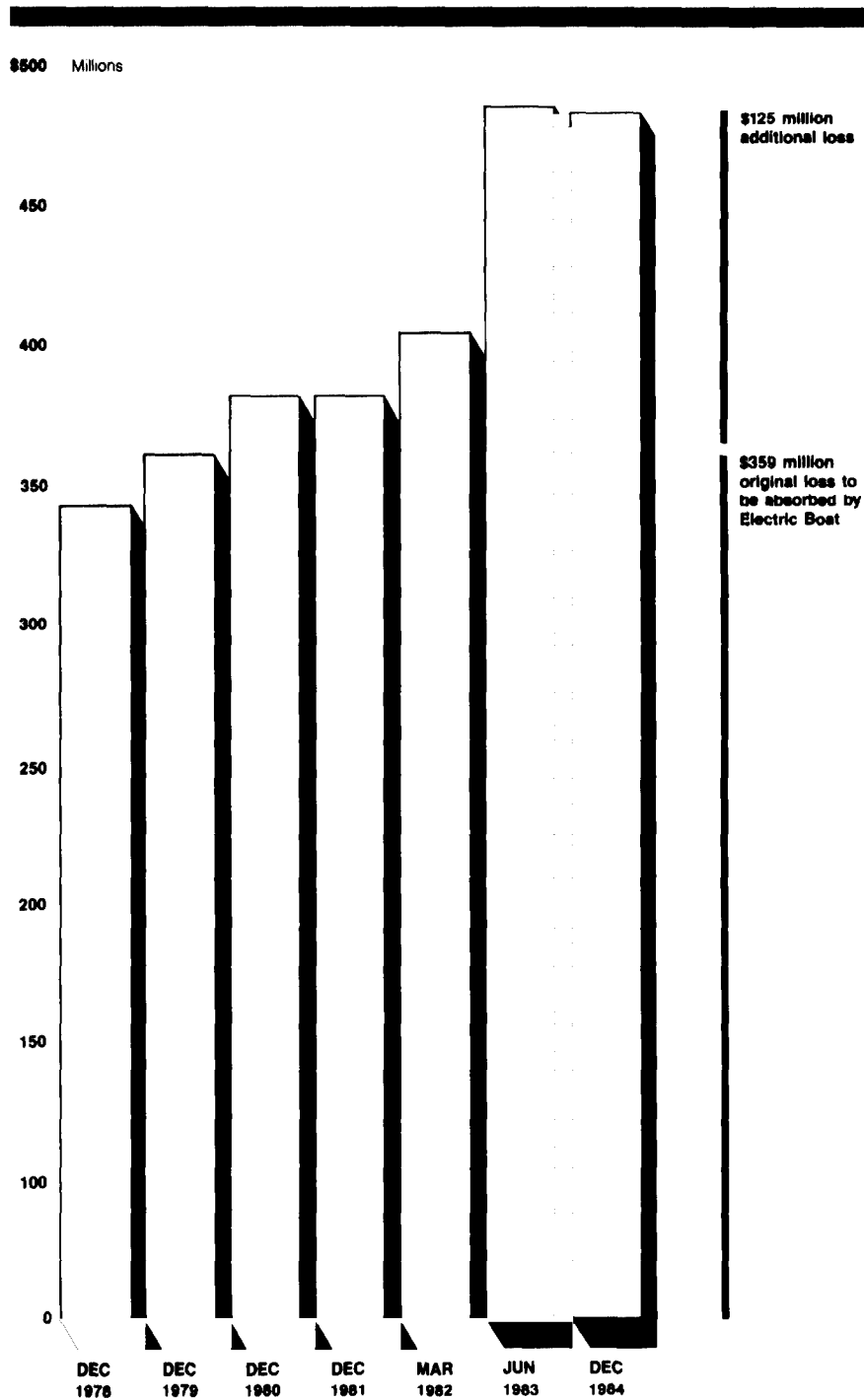
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Abbreviations

DAR	Defense Acquisition Regulation
DCAA	Defense Contract Audit Agency
RICO	Racketeer Influenced and Corrupt Organizations

Electric Boat's Estimated Loss at Completion on Public Law 85-804 Contracts



Comparison of Delivery Dates Negotiated Under the 1978 Settlement With Actual Delivery Dates for SSN 688s Under Contracts - 0268 and -0206

Contractual hull number	1978 settlement	Last contractual delivery date ^a	Actual delivery
-0268			
SSN690	06-10-77	06-10-77	06-10-77
SSN692	03-10-78	03-10-78	03-10-78
SSN694	06-09-78	01-23-79	06-09-78
SSN696	03-31-79	03-31-79	01-23-79
SSN697	08-04-79	11-30-79	11-30-79
SSN698	10-27-79	02-13-81	02-13-81
SSN699	02-23-80	03-31-81	03-31-81
-0206			
SSN700	06-21-80	06-26-81	06-26-81
SSN701	10-18-80	09-30-81	09-30-81
SSN702	02-14-81	12-18-81	12-18-81
SSN703	06-13-81	12-24-81	12-22-81
SSN704	02-06-82	06-26-82	07-19-82
SSN705	06-05-82	12-14-82	11-24-82
SSN706	10-02-82	05-28-83	04-14-83
SSN707	01-29-83	10-22-83	08-27-83
SSN708	09-24-83	03-17-84	02-17-84
SSN709	01-21-84	09-08-84	07-16-84
SSN710	05-19-84	02-16-85	12-05-84

^aThe contract modifications establishing these dates are:
 N00024-71-C-0268 P00030 dated 2-11-82
 N00024-74-C-0206 P00024 dated 2-11-82

Comments From Division Vice President, Finance and Strategic Planning, Electric Boat Division of General Dynamics Corp.

GENERAL DYNAMICS

Electric Boat Division

Eastern Point Road, Groton, Connecticut 06340
203 446-5960

21 October 1985

Subject: General Accounting Office (GAO) Draft Report on "The 1978 Navy Shipbuilding Claim Settlement at Electric Boat -- Status as of December 22, 1984"

Reference: (a) United States General Accounting Office Letter (Mr. Frank C. Conahan) to Electric Boat Division (Mr. A. M. Barton), dated September 10, 1985, same subject

Mr. Frank C. Conahan, Director
National Security and International Affairs Division
United States General Accounting Office
Washington, D.C. 20548

1. Electric Boat Division has received and reviewed the draft GAO audit report entitled "The 1978 Navy Shipbuilding Claim Settlement at Electric Boat - Status as of December 22, 1984". As requested in Reference (a), Electric Boat Division Comments are provided in the following paragraphs.

2. GENERAL COMMENTS

As stated in the GAO report, this is the sixth report on the status of two contracts for constructing SSN688 Class attack submarines at Electric Boat modified in 1978 under the authority of Public Law 85-804. The purpose of each of the six reports has been the same, that is to ensure that (1) funds authorized for payment under the Public Law 85-804 contract modification are being used only on the two contracts and (2) that Electric Boat will not use such funds to realize any total combined profit on these contracts. Each year the conclusion has also been the same, namely that (1) the funds are being spent as intended and (2) construction costs have overrun the contract ceiling and Electric Boat has borne the entire cost of all overrun. Since all the ships required by these two contracts have been delivered to the Navy and the guarantee period has expired on the last ship, there is no possibility that Electric Boat will realize any profit on these contracts.

3. SPECIFIC COMMENTS

There are sections in the GAO report that Electric Boat believes are not related to the clearly stated requirement and purpose of the GAO report and should be deleted. The sections are:

- (1) "SUBCONTRACTOR KICKBACKS AND PUBLIC LAW 85-804 SETTLEMENT CONTRACTS",
- (2) "ACTIONS TO RECOVER KICKBACKS AND OTHER RELATED LITIGATION"
- (3) "SEGREGATION OF COSTS FOR CERTAIN LEGAL, PROFESSIONAL AND OTHER SERVICES RELATING TO GOVERNMENT INVESTIGATION".

GENERAL DYNAMICS

Electric Boat Division

-2-

Based upon the losses which General Dynamics has incurred on the two contracts, the alleged kickback scheme by a former General Dynamics employee could have no possible impact on the use of Public Law 85-804 settlement funds. In addition, there is no basis for including the section on Segregation of Costs because the subject costs could have no possible impact on the use of Public Law 85-804 funds.

4. The Division is attaching an updated Appendix II which reflects the latest contractual delivery dates for the subject contracts as agreed to by both the Government and Electric Boat.

5. The Division requests that you include a copy of this letter with your final report when it is submitted to the Congress.



A. M. Barton
Division Vice President -
Finance and Strategic Planning

APPENDIX II

APPENDIX II

COMPARISON OF DELIVERY DATES NEGOTIATED
UNDER THE 1978 SETTLEMENT WITH ACTUAL DELIVERY DATES
FOR SSN 688s UNDER CONTRACTS -0268 AND -0206

<u>Contractual Hull Number</u>	<u>1978 Settlement</u>	<u>Last Contractual Delivery Date*</u>	<u>Actual Delivery</u>
-0268			
SSN690	06-10-77	06-10-77	06-10-77
SSN692	03-10-78	03-10-78	03-10-78
SSN694	06-09-78	01-23-79	06-09-78
SSN696	03-31-79	03-31-79	01-23-79
SSN697	08-04-79	11-30-79	11-30-79
SSN698	10-27-79	02-13-81	02-13-81
SSN699	02-23-80	03-31-81	03-31-81
-0206			
SSN700	06-21-80	06-26-81	06-26-81
SSN701	10-18-80	09-30-81	09-30-81
SSN702	02-14-81	12-18-81	12-18-81
SSN703	06-13-81	12-24-81	12-22-81
SSN704	02-06-82	06-26-82	07-19-82
SSN705	06-05-82	12-14-82	11-24-82
SSN706	10-02-82	05-28-83	04-14-83
SSN707	01-29-83	10-22-83	08-27-83
SSN708	09-24-83	03-17-84	02-17-84
SSN709	01-21-84	09-08-84	07-16-84
SSN710	05-19-84	02-16-85	12-05-84

*The contract modifications establishing these dates are:

N00024-71-C-0268	P00030	dated 2-11-82
N00024-74-C-0206	P00024	dated 2-11-82

Comments From Assistant Secretary of Defense, Acquisition and Logistics



ACQUISITION AND
LOGISTICS
DASD(P) (CPF)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-8000

29 OCT 1985

Mr. Frank C. Conahan
Director, National Security
and International Affairs Division
U. S. General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Conahan:

This is the Department of Defense response to the General Accounting Office draft report "The 1978 Navy Shipbuilding Claim Settlement at Electric Boat--Status as of December 22, 1984," Dated September 10, 1985, GAO Code 394056--OSD Case No. 6836.

In essence, GAO concludes that (1) the authorized funds were used only in the specified contracts, (2) the contractor did not realize any total combined profit on the contracts (as stipulated in Section 821 of Public Law 95-485), (3) Electric Boat has overrun the contracts' ceiling prices by more than \$100 million and is absorbing 100 percent of the cost overrun over that amount, and (4) all 18 submarines required by these contracts have been delivered.

The DoD has reviewed the report and agrees with the facts and conclusions. We appreciate the professional manner in which the GAO has conducted the annual reviews of the Electric Boat Shipbuilding claims settlement.

Sincerely,

Comments From Assistant Attorney General for Administration, Department of Justice



U.S. Department of Justice

Washington, D.C. 20530

OCT 2 1985

Mr. William J. Anderson
Director
General Government Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Anderson:

This letter responds to your request to the Attorney General for the comments of the Department of Justice on your draft report entitled "The 1978 Navy Shipbuilding Claim Settlement at Electric Boat -- Status as of December 22, 1984."

We have reviewed the draft report and have no substantive comments to offer on the material presented as it relates to the Department. However, we are providing information which we suggest be used to update the status of the trustee's and Government's actions. We recommend the following paragraph be inserted before the last paragraph on page 12 of the draft report:

In July 1984, the trustee's action was transferred from Delaware to the United States District Court for the Southern District of New York. In July 1985, the Government's action was transferred from the District of Massachusetts to the Southern District of New York. In September 1985, the court in New York denied a motion submitted by two of the individual defendants to consolidate the Government's civil action with the trustee's action.

We appreciate the opportunity to provide comments on the report while in draft form. Should you have any questions concerning our comments, please feel free to contact me.

Sincerely,

W. Lawrence Wallace
Assistant Attorney General
for Administration

Now on p. 7

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