

MS 75 110499

BY THE COMPTROLLER GENERAL

Report To The Congress

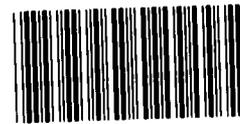
OF THE UNITED STATES

Two Contracts For Nuclear Attack Submarines Modified By Public Law 85- 804--Status As Of December 23, 1978

The Defense Appropriation Authorization Act of 1979 requires the Comptroller General to audit and review two specific contracts for SSN-688 class nuclear attack submarines.

The purpose of the audit is to ensure that funds authorized for payments under contract modifications made in the interest of national defense are being used only on the two contracts and that the contractor is not realizing any total combined profit on these contracts.

GAO's review disclosed that the funds are being spent as intended and the contractor is not realizing a combined profit on the contracts.



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PSAD-78-107
OCTOBER 2, 1979



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

B-178056

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

This report is in compliance with section 821 of the 1979 Defense Appropriation Authorization Act which requires the Comptroller General to audit and review two contracts the Navy awarded to General Dynamics Corporation for SSN-688 class nuclear attack submarines.

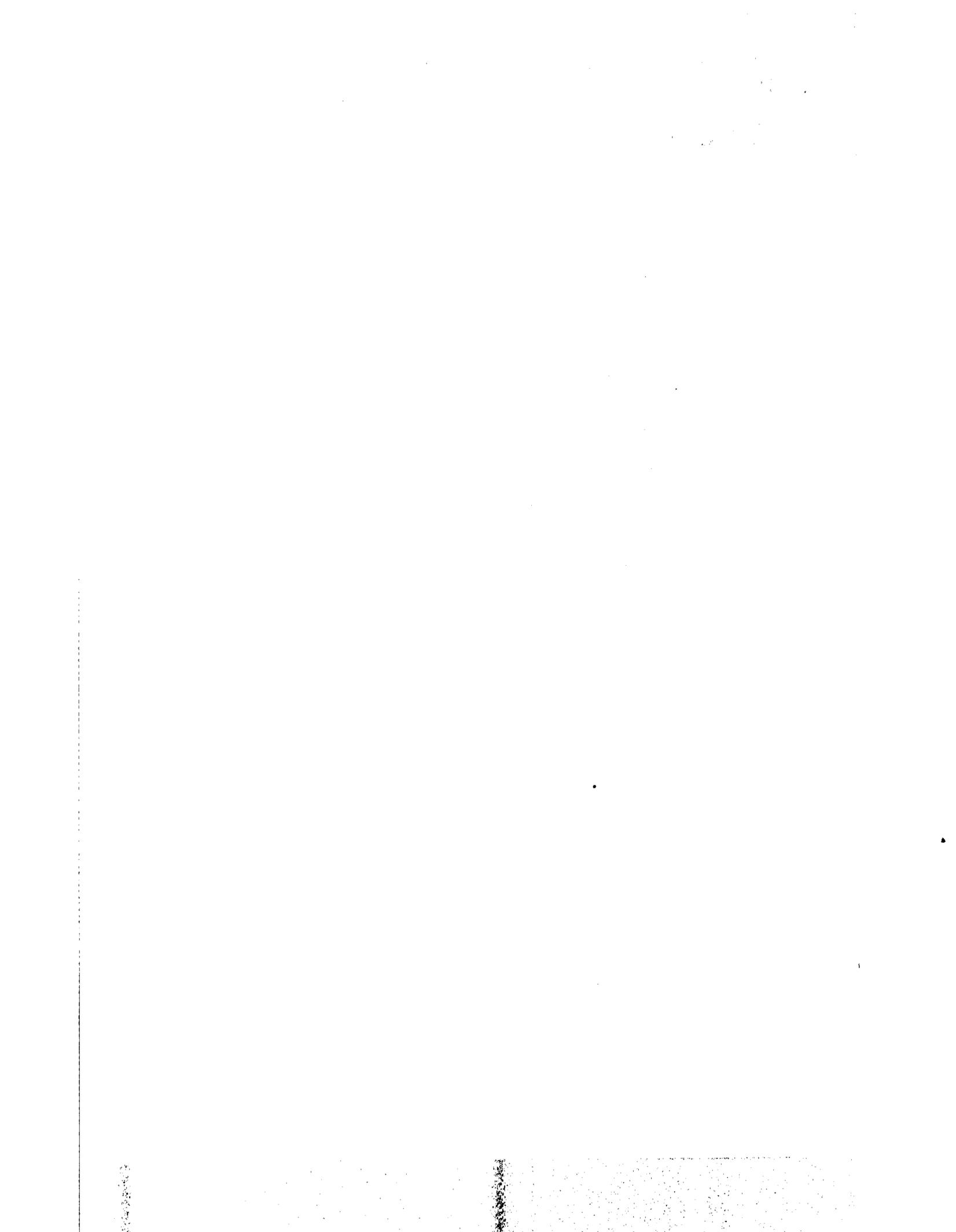
Section 821 also requires the Comptroller General to audit and review two other contracts which the Navy awarded to Litton Industries for landing helicopter assault vessels and DD-963 vessels. The results of the review at Litton will be reported separately.

We plan to issue annual reports to the Congress until the specified contracts are completed. We will issue interim reports or brief appropriate committees of the Congress if significant matters develop.

Copies of this report are being sent to the chairmen, Senate and House Armed Services Committees; Senator William Proxmire; and the Chairman, General Dynamics Corporation.

A handwritten signature in black ink, appearing to read "James P. Atwater".

Comptroller General
of the United States



COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

TWO CONTRACTS FOR NUCLEAR
ATTACK SUBMARINES MODIFIED
BY PUBLIC LAW 85-804--
STATUS AS OF DECEMBER 23, 1978

D I G E S T

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(The 1979 Defense Appropriation Authorization Act requires the Comptroller General to audit and review two contracts for nuclear attack submarines being built by General Dynamics Corporation to ensure that funds authorized under Public Law 85-804 1/ are used only on these contracts and that the corporation does not realize any total combined profit on the contracts. The contracts were modified in June 1978 to provide financial relief to General Dynamics.

(GAO found that the funds paid under Public Law 85-804 were being used only on the two contracts, and that the contractor was not realizing any total combined profit. GAO also found that, as of the corporation's fiscal year ending in December 1978:

✓ --The contractor's procedures and controls were adequate to ensure that (1) costs were properly charged to individual contracts and (2) its estimated costs to complete the contracts were reasonable.

--Funds were being used only on the specified contracts since the incurred costs were greater than the amount of reimbursements.

1/Public Law 85-804 allows the President to authorize any Government agency or department exercising functions in connection with national defense to modify contracts and make advance payments, regardless of other laws that relate to making, performing, amending, or modifying contracts, whenever he deems that such action would facilitate national defense.

--Electric Boat (the Division of General Dynamics constructing the submarines) continued to project an overall loss on the contracts. To realize a profit, it would have to experience a significant underrun on the remaining estimated costs.

--The prospect of its achieving such efficiencies was remote.

GAO's audit of the contractor's estimated cost at completion, reported as of December 23, 1978, included

--a review of procedures and controls established to ensure that costs are properly charged to individual contracts,

--tests of transactions to obtain an understanding of the system for charging the two SSN-688 contracts,

--a review of the estimated revenues and costs to complete the two contracts to ensure that they were reasonable, and

--a review of audits performed by Certified Public Accountant firms and the Defense Contract Audit Agency.

Department of the Navy officials agreed with GAO's conclusions. Electric Boat officials chose not to comment.

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ABBREVIATIONS

CPA	Certified Public Accountant
DCAA	Defense Contract Audit Agency
GAO	General Accounting Office

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CHAPTER 1

INTRODUCTION

Our Office has reviewed the status of Navy contracts N00024-71-C-0268 (-0268) and N00024-74-C-0206 (-0206) for SSN-688 nuclear attack submarines. The prime contractor for these two contracts is General Dynamics Corporation, and the submarines are being constructed at its Electric Boat Division (Electric Boat), Groton, Connecticut.

DOC 1
DOC 473
✓ DOC 02938
✓ CNG 986

Our review was performed pursuant to section 821 of the 1979 Defense Appropriation Authorization Act. (See app. I.) Section 821 requires the Comptroller General to perform such audits and reviews of these contracts as he determines necessary to ensure that funds authorized to provide relief under Public Law 85-804 ^{1/} are used only in connection with the contracts, and that the prime contractor does not realize any total combined profit on the contracts. It further requires that the Comptroller General report on the results of such audits on an annual basis.

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BACKGROUND

Electric Boat was the principal designer of Navy submarines for many years. However, the Navy decided to develop an alternative design capability, and in November 1969 awarded a design contract for the SSN-688 class nuclear attack submarine to Newport News Shipbuilding and Dry Dock Company (Newport News). This was followed in February 1970 by a contract with Newport News for construction of the lead ship. In January 1971, the Navy awarded Electric Boat a contract for seven follow ships. Despite Navy concern over Electric Boat's ability to meet proposed delivery dates, the Navy awarded Electric Boat a contract for seven additional SSN-688s in October 1973 and opted for four more in December 1973. Thus, within a period of 35 months, the Navy awarded Electric Boat construction contracts for 18 SSN-688s or 78 percent of the total construction program.

1/Public Law 85-804 allows the President to authorize any Government agency or department exercising functions in connection with national defense to modify contracts and make advance payments, regardless of other laws that relate to making, performing, amending, or modifying contracts, whenever he deems that such action would facilitate national defense.

Funds management
Shipbuilding industry
Auditors
Claims
Nuclear Armed
Military vessels
submarines
Contract award

Early in the construction phase it became evident that Newport News, as the Navy design agent, was having difficulty developing and providing timely design information. Two years after the initial contract award, Electric Boat had received only one-half of the 5,368 drawings eventually used to construct an SSN-688. In early 1974, Electric Boat's delivery schedule for the first seven SSN-688s had slipped 7 months. Nevertheless, the Navy decided to award Electric Boat still another contract for the construction of the lead TRIDENT, a ballistic missile submarine, and three follow ships.

In an effort to meet its contractual commitments, Electric Boat increased its labor force from about 12,000 in January 1971 to 19,000 in January 1975 and to 26,000 in January 1977. Serious productivity problems were associated with this buildup. It soon became apparent that the cumulative effects of low productivity, shortage of skilled workers, and late receipt of Government-furnished information were affecting the SSN-688 program.

On February 14, 1975, Electric Boat filed a claim against the Navy for about \$220 million. The principal basis of the claim was that defective and late Government-furnished design data resulted in SSN-688 delivery date extension and additional work. On April 7, 1976, the claim was settled for a \$97 million increase in the contract ceiling price.

Electric Boat filed a second claim in December 1976 for \$544 million on the basis of the effect of late and unsuitable Government-furnished information. Navy analysts recommended a \$125 million adjustment to the contracts. General Dynamics refused to accept this amount as full and final settlement. The company was determined to resort to litigation to prove that it was legally entitled to a significantly larger amount.

As of December 24, 1977, Electric Boat's estimated cost at completion of the two contracts was \$2,668 million which would result in a loss of \$843 million if nothing was received from present or future claims against the Navy. In the settlement effective as of June 9, 1978, under Public Law 85-804, the Navy agreed that cost growth had occurred as a result of complex causes beyond the control of either party, and misjudgments made by both the Navy and Electric Boat.

According to the Memorandum of Decision proposing the settlement, these factors adversely affected the SSN-688 program:

- A deliberate decision by the Navy to have an alternative source for nuclear submarine design after relying solely on Electric Boat for the previous 20 years.
- The attitude in the early 1970s that rapid construction and development of the SSN-688 was vitally important to national security.
- The award to Electric Boat of all 11 submarines in 1973 with all the risks inherent in that decision.
- Electric Boat's underestimation of the complexity of the SSN-688 and its inability to effectively control manpower and productivity.

The settlement provides for

- a \$125 million contract price increase to cover existing company claims against the Navy;
- \$359 million, one-half of the remaining estimated loss, to be absorbed by the Navy;
- \$359 million, one-half of the remaining estimated loss, to be absorbed by General Dynamics over the remaining submarine construction period;
- cost overruns to be divided 50/50 up to a total of \$100 million with costs above that figure being the total responsibility of General Dynamics; and
- cost underruns to be shared on a 50/50 basis.

SCOPE OF REVIEW

Our audit of the contractor's estimated cost at completion, as of the end of December 1978, included (1) a review of procedures and controls established to ensure that costs are properly charged to individual contracts, (2) tests of transactions to obtain an understanding of the system for charging the two SSN-688 contracts, (3) a review of the estimated revenues and costs to complete the two SSN-688 contracts to ensure that they were reasonable, and (4) a review of audits performed by Certified Public Accountant (CPA) firms, and the Defense Contract Audit Agency (DCAA).

CHAPTER 2

INDEPENDENT AUDITS OF THE ELECTRIC

BOAT SSN-688 PROGRAM

Several audits of Electric Boat's SSN-688 program were performed by private accounting firms and Government auditors. Some of these audits were directed to determining the reasonableness of the contractor's total estimated cost at completion and others involved determining whether costs charged to the contracts were allocable, allowable, and reasonable. From our review of the work performed and discussions with the auditors involved, we concluded that their efforts could be used to a great extent to supplement our work. The previous audit work, its objectives and conclusions, and our assessment of the results are summarized below.

AUDITS BY CPA FIRMS

Prior to the settlement under Public Law 85-804, the Navy hired a CPA firm to review and comment on several matters, including the soundness of the rationale and the reasonableness of the assumptions employed by the contractor in arriving at the \$2,668 million estimated cost at completion. The review included confirming costs incurred as of December 24, 1977, with the company's independent auditors, and evaluating the procedures used to estimate the cost at completion. On the basis of its review of the company's independent auditor's workpapers for the years 1976 and 1977, the Navy's CPA firm concluded that:

- The progress of the SSN-688 class contracts has been monitored by the company's independent CPAs on a continuing basis.
- The underlying cost accumulation data and assumptions used to project the estimate of cost at completion for the SSN-688 class submarines have been reviewed by the independent CPAs.
- The assumptions used to estimate cost at completion in excess of revenues were reasonable.
- The review procedures performed by the independent CPAs were sufficient in the circumstances.

We met with a partner of the company's independent auditors to determine more specifically the review procedures they followed to provide assurance that the estimated costs at completion of the two SSN-688 contracts as of December 24, 1977, and December 23, 1978, were reasonable. According to the partner, the reviews of the estimates involved meeting these objectives:

- Understanding the assumptions and the underlying logic used by Electric Boat in computing the estimate at completion.
- Understanding and reviewing the data on which the assumptions were based.
- Determining that the assumptions were consistently applied to all ships in both contracts.
- Reconciling the estimates to actual performance.
- Verifying the accuracy of the computation of the estimate at completion.

On the basis of the work performed in meeting these objectives and on the work performed as part of the annual audits, the company's independent auditors believe that Electric Boat's estimates of cost at completion were reasonable.

We believe the approaches taken and the procedures employed by the CPA firms were sufficient to provide a reasonable verification of the company's estimate of cost at completion. Therefore, we were able to use the work performed to reduce the scope of our work.

AUDITS BY DCAA

DCAA examines contractor incurred or estimated contract costs and determines whether they are (1) reasonable in nature and amount, (2) allocable, (3) in accordance with generally accepted accounting principles and practices and with Cost Accounting Standards Board standards, and (4) in compliance with applicable contract cost limitations and exclusions. Operations audits of functional areas of contractors' operations and annual audits of overhead costs are the principal bases upon which the Government accepts claimed costs for reimbursement under cost-type and flexibly priced contracts. Detailed verifications of incurred cost are not performed on a contract-by-contract basis.

Operations audits are designed to evaluate the efficiency and economy of operations through reviews of policies, procedures, controls, and practices established by the contractor over particular functions or operations. The audits cover both financial and operational matters. They are intended to evaluate the adequacy of management control systems and the reliability of contractors' cost accounting records. Emphasis is on improving operations to avoid unnecessary future costs.

For fiscal years 1977 and 1978, DCAA recommended cost avoidances of \$15.4 million at Electric Boat based on the results of operations audits. The areas covered by these operations audits were diverse, including reviews of Electric Boat's inventory control system and material control operations, a review of preventive maintenance and related facilities management, and a review of automatic data processing development and system operations. In addition, DCAA performed several labor-related audits, such as unannounced floor checks at Electric Boat's plants and reviews of engineering labor. These audits were to determine the reliability of Electric Boat's labor accounting system. The reports we reviewed stated that no significant financial impact to Government contracts was disclosed by these labor audits. We reviewed the workpapers of two of these audits and concluded that the work was properly planned and performed and that the conclusions were valid.

DCAA also performs annual audits of overhead costs. These costs have been audited through the end of fiscal year 1977. Fiscal year 1978 overhead costs will be audited during the current year.

Finally, DCAA is reviewing progress payments on a continuing basis for both SSN-688 contracts to ensure that the contractor is following the billing procedures agreed to in the settlement, and that Electric Boat's share of the loss is being absorbed through reductions in progress payments. DCAA has concluded that both conditions are being met. We reviewed DCAA's audit of progress payments and determined that their conclusion is valid.

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On the basis of our review, we believe that DCAA's monitoring of contractor operations and of costs incurred is sufficient to provide assurance that costs charged to the SSN-688 contracts are correct, and that the contractor is complying with the terms of the settlement.

CHAPTER 3

COMPLIANCE WITH SECTION 821

The results of the several independent audits performed by CPA firms and DCAA on the Electric Boat's SSN-688 program provide a baseline for charting the financial status and progress of the program. Using these results, we did sufficient additional work to assure ourselves that (1) the funds authorized to provide relief under Public Law 85-804 are being used only on the two SSN-688 contracts and (2) the contractor is not realizing any total combined profit on these contracts.

As previously discussed, we found that the company's procedures and controls are adequate to ensure that (1) costs are properly charged to individual contracts and (2) its estimated costs to complete are reasonable. Further, we found that as of the company's fiscal year, ending in December 1978:

- Funds provided are being used only on the specified contracts since the incurred costs are greater than the amount of reimbursements.
- Electric Boat continues to project an overall loss on the contracts and will have to experience a significant underrun on the remaining estimated costs to become profitable.
- The chances of its achieving such efficiencies appear, at this point in time, to be remote.

Specifics of these observations are discussed in the following sections.

USE OF FUNDS AUTHORIZED

We found that the funds paid under Public Law 85-804 are being used only on the two SSN-688 contracts. As of December 23, 1978, Electric Boat had incurred \$66 million of costs in excess of the absorbed loss and amounts billed the Government.

	<u>Contract</u>		<u>Total</u>
	<u>-0268</u>	<u>-0206</u>	
	----- (millions) -----		
Incurring costs	\$951	\$612	\$1,563
Less absorbed loss	<u>-71</u>	<u>-43</u>	<u>-114</u>
Adjusted costs	880	569	1,449
Amounts billed	<u>863</u>	<u>520</u>	<u>1,383</u>
Unreimbursed costs	<u>\$ 17</u>	<u>\$ 49</u>	<u>\$ 66</u>

The incurred costs have not been adjusted for costs which DCAA considered unallowable under the Defense Acquisition Regulation, formerly the Armed Services Procurement Regulation. DCAA has questioned \$49 million, which is subject to negotiation. Even if the entire \$49 million is disallowed, there would still be a balance of \$17 million in unreimbursed costs. Therefore, since the amount expended on the contracts is greater than the reimbursements, the funds made available under Public Law 85-804 are not being used on business other than the two contracts.

COMBINED PROFIT/LOSS POSITION

On the two SSN-688 contracts, as of December 23, 1978, Electric Boat is not realizing any total combined profit; continues to project a combined loss; and is unlikely to achieve a profitable position. Even allowing for a number of contingencies, the expected combined loss will be at least \$318 million and could reach \$365 million. The range of possibilities are discussed and illustrated in the following sections.

Estimated loss at completion prior to and after the settlement

Before the financial settlement, the estimated loss at completion of contracts -0268 and -0206 reported as of December 24, 1977, was \$843 million.

	<u>Contract</u>		<u>Total</u>
	<u>-0268</u>	<u>-0206</u>	
	----- (millions) -----		
Estimated revenue:			
Ceiling prices of basic contracts	\$ 428	\$ 847	\$1,275
Ceiling price of first claim settlement in April 1976	97	-	97
Ceiling prices of contract modifications	15	18	33
Escalation paid	95	177	272
Escalation estimated to be paid	-	<u>148</u>	<u>148</u>
Total estimated revenue	\$ 635	\$1,190	\$1,825
Estimated cost	<u>1,009</u>	<u>1,659</u>	<u>2,668</u>
Estimated loss	<u>\$ 374</u>	<u>\$ 469</u>	<u>\$ 843</u>

The estimated cost at completion of \$2,668 million and the projected estimated loss of \$843 million were the figures used to settle the dispute between the contractor and the Navy. The \$2,668 million consisted of \$1,341 million incurred costs and \$1,327 million estimated costs to complete, but was not adjusted for costs considered unallowable by DCAA. The settlement resulted in Electric Boat absorbing an estimated loss of \$359 million.

	<u>Contract</u>		<u>Total</u>
	<u>-0268</u>	<u>-0206</u>	
	----- (millions) -----		
Estimated loss before settlement	\$374	\$469	\$843
Less claim settlement	<u>-102</u>	<u>-23</u>	<u>-125</u>
Adjusted estimated loss	272	446	718
Less government share	<u>-136</u>	<u>-223</u>	<u>-359</u>
Estimated loss to contractor	<u>\$136</u>	<u>\$223</u>	<u>\$359</u>

Current estimated loss at completion

As shown below, the contractor's estimated loss at completion as of December 23, 1978, is \$365 million, which is an increase (overrun) of \$6 million over the \$359 million loss estimated at the time of the settlement. As previously stated, cost underruns are shared by the contractor and the Government on a 50/50 basis. Cost overruns are shared in the same proportion, up to a maximum overrun of \$100 million. In computing costs for sharing purposes, the total estimated cost is reduced by the cost for contract modifications and amounts received for extraordinary escalation. ^{1/} The purpose of this reduction is to convert the total estimated cost to a basis consistent with the estimated cost at completion prepared at the time of the financial settlement.

	<u>Contract</u>		
	<u>-0268</u>	<u>-0206</u>	<u>Total</u>
	----- (millions) -----		
Estimated cost at completion as of December 23, 1978 (note a)	\$1,019	\$1,689	\$2,708
Less contract modifica- tions	-3	-5	-8
Less extraordinary escalation	<u>-3</u>	<u>-17</u>	<u>-20</u>
Estimated cost for sharing purposes	1,013	1,667	2,680
Estimated cost at completion as at time of settlement	<u>1,009</u>	<u>1,659</u>	<u>2,668</u>
Cost overrun	\$ <u>4</u>	\$ <u>8</u>	\$ <u>12</u>
Amount of overrun to be ab- sorbed by contractor per settlement terms (50%)	2	4	6
Estimated loss at completion as at time of settlement	<u>136</u>	<u>223</u>	<u>359</u>
Estimated loss at completion as of December 23, 1978	<u>\$ 138</u>	<u>\$ 227</u>	<u>\$ 365</u>

^{a/}See appendix II for analysis by hull number.

^{1/}Extraordinary escalation is additional costs attributable solely to inflation above that included in the \$2,668 million estimated cost at completion as of the time of the settlement.

The December 23, 1978, estimated cost at completion of \$2,708 million includes a management reserve of \$45 million established by Electric Boat for contract N00024-74-C-0206. Electric Boat officials stated that this reserve represents labor costs which may not be incurred, based on current trends. However, the possible reduction, in the opinion of Electric Boat and the company's independent auditors, is not firm enough to warrant reducing the total estimated cost. Navy officials stated they do not believe the savings will be realized. If the savings are realized, however, the contractor's loss would then be \$342 million as shown below.

	<u>Contract</u>		<u>Total</u>
	<u>-0268</u>	<u>-0206</u>	
	----- (millions) -----		
Estimated cost for sharing purposes (see above)	\$1,013	\$1,667	\$2,680
Less management reserve	<u>-</u>	<u>-45</u>	<u>-45</u>
Adjusted cost for sharing purposes	1,013	1,622	2,635
Estimated cost at time of settlement	<u>1,009</u>	<u>1,659</u>	<u>2,668</u>
Cost overrun (underrun)	<u>\$ 4</u>	<u>\$ -(37)</u>	<u>\$ -(33)</u>
Estimated loss at time of settlement	136	223	359
Contractor share of overrun (underrun)	<u>2</u>	<u>-(19)</u>	<u>-(17)</u>
Estimated loss at completion as of December 23, 1978	<u>\$ 138</u>	<u>\$ 204</u>	<u>\$ 342</u>
<u>Effect of unallowable costs on estimated loss</u>			

The foregoing computations of estimated loss have been based on costs which have not been reduced for costs considered unallowable by DCAA. As of December 23, 1978, DCAA had questioned \$49 million as representing unallowable costs. The corresponding figure for December 24, 1977, was \$42 million. If the \$49 million questioned as of December 23, 1978, is determined to be totally unallowable, the contractor's estimated

loss would be either \$340 million or \$318 million depending on whether the labor savings represented by the management reserve are also ultimately realized. The following schedules show the computations of these estimated losses.

Without Labor Savings

	<u>Contract</u>		<u>Total</u>
	<u>-0268</u>	<u>-0206</u>	
	------(millions)-----		
Estimated cost for sharing purposes (see above)	\$1,013	\$1,667	\$2,680
Less costs questioned	<u>-39</u>	<u>-10</u>	<u>-49</u>
Adjusted cost for sharing purposes	974	1,657	2,631
Estimated cost at time of settlement	<u>1,009</u>	<u>1,659</u>	<u>2,668</u>
Cost underrun	\$ <u>35</u>	\$ <u>2</u>	\$ <u>37</u>
Estimated loss at time of settlement	136	223	359
Contractor share of underrun (50%)	<u>18</u>	<u>1</u>	<u>19</u>
Estimated loss at completion as of December 23, 1978	\$ <u>118</u>	\$ <u>222</u>	\$ <u>340</u>

With Labor Savings

	<u>Contract</u>		<u>Total</u>
	<u>-0268</u>	<u>-0206</u>	
	------(millions)-----		
Estimated cost for sharing purposes (see above)	\$1,013	\$1,667	\$2,680
Less costs questioned	-39	-10	-49
Less management reserve	<u>-</u>	<u>-45</u>	<u>-45</u>
Adjusted cost for sharing purposes	974	1,612	2,586
Estimated cost at time of settlement	<u>1,009</u>	<u>1,659</u>	<u>2,668</u>
Cost underrun	\$ <u>35</u>	\$ <u>47</u>	\$ <u>82</u>
Estimated loss at time of settlement	136	223	359
Contractor share of underrun (50%)	<u>18</u>	<u>23</u>	<u>41</u>
Estimated loss at completion as of December 23, 1978	\$ <u>118</u>	\$ <u>200</u>	\$ <u>318</u>

In summary, the contractor's estimated loss as of December 23, 1978, ranges from \$318 million to \$365 million depending on the assumptions used. Following is a recap of the estimated losses.

	<u>Contract</u>		<u>Total</u>
	<u>-0268</u>	<u>-0206</u>	
	----- (millions) -----		
Loss before adjustments	\$138	\$227	\$365
Loss if only labor savings are realized	138	204	342
Loss if only questioned costs are sustained	118	222	340
Loss if both labor savings are realized and questioned costs are sustained	118	200	318

PROSPECTS FOR AN OVERALL PROFIT ON THE COMBINED CONTRACTS

Because cost underruns are shared by the contractor and the Government on a 50/50 basis, the contractor would have to underrun the total estimated cost by \$730 million in order to break even on the maximum estimated loss of \$365 million, or by \$636 million to break even on the minimum estimated loss of \$318 million. It should be noted that the minimum loss estimate already anticipates labor savings of \$45 million; therefore, the total underrun needed would be \$681 million (\$636 million plus \$45 million).

There appears to be little likelihood that the contractor will underrun by these amounts. As of December 23, 1978, the contractor had already incurred costs of \$1,563 million, leaving \$1,145 million remaining to be incurred of the total cost estimate of \$2,708 million. In order to break even, the contractor would have to underrun the \$1,145 million by either \$730 million or \$681 million, depending on the assumptions used previously.

The total loss is also affected by change orders since the contractor is allowed to earn a profit on change orders, as long as there is no overall profit on the two contracts. Adjudicated change orders in relation to total estimated construction costs, however, have been immaterial, amounting to

only \$5 million as of December 31, 1978. As of the same date, unadjudicated changes and requests for proposals totaled only \$18 million.

NAVY AND ELECTRIC BOAT COMMENTS

We discussed this report informally with Department of the Navy representatives who agreed with our conclusions.

We also provided Electric Boat officials with a draft of our report and requested their comments. Subsequently, we were advised that they had no comments.

SECTION 821PUBLIC LAW 95-485OCTOBER 20, 1978*Do not use*

"Section 821. (a) Any funds authorized by this or any other Act to provide relief to contractors under authority of the first section of the Act entitled "An Act to authorize the making, amendment, and modification of contracts to facilitate the national defense", approved August 28, 1958 (72 Stat. 972; 50 U.S.C. 1431), in connection with contracts numbered N00024-69-C-0283, N00024-70-C-0275, N00024-71-C-0268, and N00024-74-C-0206 for the procurement for the United States of landing helicopter assault vessels (LHA), DD-963 vessels, and SSN 688 nuclear attack submarines, and paid by the United States to such contractors, shall be subject to such audits and reviews by the Comptroller General of the United States as the Comptroller General shall determine necessary to insure that such funds are used only in connection with such contracts and to insure that the prime contractors concerned do not realize any total combined profit on such contracts.

"(b) No funds described in subsection (a) may be used to provide relief to any contractor described in subsection (a), in connection with contracts described in such subsection, to the extent that the use of such funds would result in any total combined profit on such contracts, as determined by the Comptroller General of the United States.

"(c) The Comptroller General of the United States shall keep the appropriate committees of the Congress currently informed regarding the expenditure of funds referred to in subsection (a) and shall submit to the Congress annually, until the completion of the contracts referred to in subsection (a), a written report on the status of the contracts referred to in subsection (a), on the expenditure of the funds referred to in such subsection, and on the results of the audits and reviews conducted by the Comptroller General under authority of this section."

ESTIMATED COST AT COMPLETIONDECEMBER 23, 1978

<u>Contract and hull no.</u>	<u>Incurred</u>	<u>Estimate to complete</u>	<u>Estimate at completion</u>
----- (millions) -----			
<u>-0268:</u>			
690	\$ 178	\$ 1	\$ 179
692	136	1	137
694	135	1	136
696	144	2	146
697	131	11	142
698	118	20	138
699	109	32	141
	<u>951</u>	<u>68</u>	<u>1,019</u>
Total			
<u>-0206:</u>			
700	127	54	181
701	84	63	147
702	74	72	146
703	67	80	147
704	57	92	149
705	48	102	150
706	42	107	149
707	35	116	151
708	31	124	155
709	25	132	157
710	22	135	157
	<u>612</u>	<u>1,077</u>	<u>1,689</u>
Total			
Total	<u>\$1,563</u>	<u>\$1,145</u>	<u>\$2,708</u>

(950514)

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