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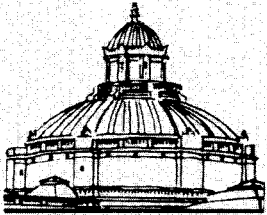
# Issue Brief

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ALLEGED FRAUD, WASTE, AND ABUSE: GENERAL DYNAMICS CORP.

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## ISSUE DEFINITION

Numerous Federal agencies -- including the Justice Department and Congressional committees -- are investigating allegations of fraud at the Electric Boat Division of General Dynamics Corporation, the nation's third largest defense contractor. This issue brief provides a chronological summary, based on newspaper and magazine accounts, of each of these investigations.

## BACKGROUND AND POLICY ANALYSIS

Seven areas of investigation can be identified:

- Alleged fraud in cost-overruns on 18 nuclear-powered attack submarines.
- Alleged kickbacks received by P. Takis Veliotis, former general manager of the Electric Boat Division, and others.
- Alleged unjustified billing of corporate expenses by General Dynamics.
- Alleged bribes and gratuities given by General Dynamics to Admiral Hyman G. Rickover, former head of the Navy's nuclear-powered shipbuilding program, and others,
- Alleged withholding of financial and performance data by General Dynamics.
- Alleged conflict of interest of George A. Sawyer, a former Assistant Secretary of the Navy.
- Alleged conflict of interest of Edward Hidalgo, another former Assistant Secretary of the Navy.
- Alleged security violations by General Dynamics.

### Alleged Fraud in Cost-Overruns on 18 Nuclear-Powered Attack Submarines

From January 1971 to December 1973, the Electric Boat Division of General Dynamics, with major shipbuilding facilities at Groton, CT, and Quonset Point, RI, received contracts from the Navy to build 18 Los Angeles (SSN-688) class nuclear-powered attack submarines (SSNs), which cost about \$665 million each in FY85 dollars. In July 1974, it received a contract for the first of several Ohio (SSBN-726) class nuclear-powered "Trident" ballistic missile submarines (SSBNs), which cost about \$1,750 million each in FY85 dollars. By 1976, both programs had fallen behind schedule and generated hundreds of millions of dollars in cost overruns. Electric Boat and the Navy acknowledged that both sides were to blame. The Navy placed the weight of the blame on management problems at Electric Boat; Electric Boat placed the weight of the blame on insufficiently detailed plans supplied by the Navy and numerous design changes ordered by the Navy once the ships were under construction. In December 1976, Electric Boat filed \$544 million in claims for reimbursement on the cost overruns on the 18 attack submarines. Negotiations between Electric Boat and the Navy began.

In December 1977, Electric Boat told the Navy it was considering filing new claims that would bring the total to \$843 million. By March 1978, the negotiations had reached an impasse, and General Dynamics gave 30-day notice of its intention to halt work on the attack submarines if progress was not made. With help from then Senator Abraham Ribicoff, the date for halting work was extended, and the two sides agreed to a settlement in early June 1978.

The settlement was based on the prospective \$843 million claim figure. The two sides agreed, first, that Electric Boat was due \$125 million under the terms of the attack submarine contracts. They split the remaining \$718 million: Electric Boat would absorb a \$359 million loss over a 6-year period, and the Navy would pay Electric Boat the other \$359 million. This part of the settlement was made under P.L. 85-804, a law used extensively in shipbuilding claims cases that authorizes relief for failing businesses when the action is deemed to facilitate national defense. The Navy also agreed to pay 50% of any additional cost overruns up to \$100 million (i.e., the Navy agreed to pay up to \$50 million) and to also pay up to another \$100 million in added costs due to inflation. Altogether, the Navy agreed to pay up to an additional \$150 million in future overruns and escalation. As it turned out, the Navy paid or obligated itself to pay about \$158 million. The Navy has thus paid or obligated itself to pay \$642 million to Electric Boat, or about three-quarters of the \$834 million figure. As a part of the agreement, the Navy promised to pay \$300 million of the promised funds in the form of an immediate cash infusion. The up-front cash, by one calculation, saved General Dynamics about \$125 million in interest charges. The tax results of the settlement, by another calculation, saved General Dynamics an additional \$187 million.

Even before the settlement was announced, Admiral Hyman G. Rickover raised questions about the possibility that Electric Boat filed fraudulent claims. He wrote memorandums to his Navy superiors (and to the Navy's general counsel), and in December 1977 testified before the Joint Economic Committee about his concerns. The Navy referred the case to the Justice Department, which opened an investigation in January 1979. A Federal grand jury was set up a month later, and received testimony from about 40 witnesses. Justice Department attorneys and the FBI recommended an indictment for the company and for two of its top officials. They were overruled by higher-level officials. The grand jury's term lapsed in August 1980, but a second one was set up to pursue the investigation.

In March 1981, as Justice Department investigation proceeded, a second major dispute between the Navy and Electric Boat erupted over quality of workmanship and materials. Testifying before the HASC Seapower Subcommittee on Mar. 12, 1981, Vice Admiral Earl B. Fowler, Commander, Naval Sea Systems Command, said that faulty welds and inferior steel had "significantly delayed" construction of the subs and increased the cost. He characterized the standard of workmanship as "shocking"

At a Mar. 17, 1981, press conference, Navy Secretary John Lehman announced that, of the four attack submarine contracts then up for award, three would be removed from competition and awarded on a sole-source basis to Newport News Shipbuilding and Dry Dock Co. of Newport News, Va. In a letter explaining the decision to General Dynamics chairman David S. Lewis, Lehman noted "the very serious problems in the delivery schedules of the 21 submarines now under construction in your yard." Lehman also said at about this time that if sufficient numbers of attack submarines could not be built by Electric Boat and Newport News, he would consider putting a Government

shipyard into production or finding another private one.

On Mar. 25, 1981, P. Takis Veliotis, general manager of Electric Boat, testified before the Seapower Subcommittee in response to Vice Admiral Fowler's statements. He acknowledged several problems, but said that Navy designers and inspectors, and Navy-furnished equipment, were to blame for the construction delays. Veliotis also cited a "large volume" of design changes ordered by the Navy once the boats were under construction.

Lastly, Veliotis told the subcommittee that Electric Boat was planning to file up to \$100 million in claims to gain reimbursement for the costs associated in correcting faulty welds. Veliotis said the claims would be made under the insurance provisions of the contracts. He said these provisions, which had been included in Navy contracts for about 40 years, made the Navy liable for Electric Boat's faulty work. He said through these provisions, the Navy substituted itself for commercial insurers, and saved hundreds of millions of dollars in insurance premiums. The Navy responded by saying its self-insurance provisions did not cover faulty work by the contractor, even if commercial policies did.

After Veliotis' testimony, Secretary of Defense Caspar Weinberger criticized Electric Boat for its "extraordinarily poor performance" on the submarine contracts. Saying the Trident program at Electric Boat "has been extremely disappointing to me," and characterizing the Ohio as "an extraordinarily poor piece of work," he expressed frustration at the sole-source nature of the Trident program, and said that he and Lehman were actively looking for other potential shipyards, foreign as well as domestic, to build the Tridents. He also acknowledged, however, that General Dynamics had performed well on its other defense contracts.

On Apr. 1, 1981, the Navy announced it would not exercise its option to award the contract for the ninth Trident to Electric Boat, which by then had been awarded contracts for the previous eight. At about this time, Lehman reportedly wrote to General Dynamic's Lewis, saying that, with the Ohio over two years behind schedule and over \$200 million beyond original cost estimates, "it may be necessary to consider alternatives to the Trident program." In testimony before the Senate Appropriations on Defense Subcommittee, Veliotis warned that switching submarine work to Government shipyards would erode the private industrial base and complicate naval shipbuilding.

At the end of April, a committee of Navy and Electric Boat officials issued a report stating, in effect, that most of Electric Boat's problems had been solved and that the firm was capable of building both Tridents and attack submarines. Soon after that, Rickover issued a prepared statement accusing Electric Boat of "ruthless money-making schemes" and of subverting competition by submitting unrealistically low bids and then raising the price tag of the ships once the contracts were awarded. He urged Congress to consider buying certain shipyards essential for naval work and paying contractors to manage them.

On June 17, 1981, Electric Boat filed an \$18.9 million claim on the USS Bremerton (SSN-698) under the insurance provisions of its contract. Future claims, the company said, might total \$100 million. On Aug. 19, 1981, Secretary Lehman accused Electric Boat (and McDonnell Douglas) of filing "rip off" and "preposterous" claims to gain reimbursement for their own faulty work. He promised that the Government would countersue any companies that tried to "take advantage of the inherent disadvantage that the taxpayer

suffers in the arena of corporate litigation." Lehman demanded that Electric Boat withdraw its claim on the Bremerton.

Electric Boat officials denied Lehman's accusations. At about this time, they also reportedly began to complain privately to senior Navy officials that Rickover allegedly had jeopardized the safety of two subs during sea trials by failing to issue the proper commands soon enough to prevent the boats from going into dangerous reverse dives.

On Sept. 14, 1981, the Navy said it was willing to negotiate with Electric Boat on the ninth Trident. The following day, Lehman qualified that by saying that Electric Boat would not get the ninth Trident until it dropped its claim on the Bremerton. On Sept. 16, 1981, Electric Boat set aside its claim and said it would deliver the second through eighth Tridents earlier than previously estimated.

On Oct. 5, 1981, General Dynamic's Lewis said Veliotis would be replaced as general manager of Electric Boat. (Veliotis was eventually replaced and was promoted to executive vice president of General Dynamics. Three years later, Lehman admitted to Newsweek that he demanded a commitment from General Dynamics to replace Veliotis as a precondition to receiving more contracts.) At about this same time, the Navy said Rickover would be retired from active duty. Veliotis and Rickover had frequently been at odds with one another. On Oct. 23, 1981, Lehman announced that "as a result of the efforts of General Dynamics and the Navy, sufficient progress has been made in solving the problems at Electric Boat to allow that yard to take on additional" submarine contracts. The events were seen as having brought about a second reconciliation between the Navy and Electric Boat.

On Jan. 5, 1982, the Justice Department announced it had closed its investigation of Electric Boat the previous month and would not bring charges. Assistant Attorney General D. Lowell Jensen said that "after careful review and analysis of the evidence, we have declined prosecution and have closed our files" on the case. On Jan. 7, Electric Boat was awarded a contract for the ninth Trident. On Feb. 11, 1982, it was awarded contracts for two more attack submarines, and announced it was dropping its claim on the Bremerton and taking a \$24.3 million after-tax charge against its 1981 earnings.

Things remained relatively quiet until Feb. 8, 1984, when Senator Proxmire urged the Justice Department to reopen the investigation and accused the Department of dragging its feet in negotiating with Veliotis, now a fugitive in Greece (see item 2), over his offer to supply evidence against General Dynamics. As discussed in item 2, Veliotis did reach an agreement with the Department, and spoke with congressional and Justice Department investigators during the Spring of 1984.

On July 25, 1984, Senator Proxmire released a staff report of the Joint Economic Committee Subcommittee on International Trade, Finance, and Security Economics finding that Electric Boat: (1) mismanaged its attack submarine projects; (2) deliberately bid low to win attack submarine contracts; and (3) worked with civilian Navy officials to "contrive" a settlement that would be approved by Congress. Proxmire also released a stack of previously confidential corporate documents, which he said supported the report's conclusions. General Dynamics categorically denied the allegations, arguing that the subcommittee staff used its material selectively to support superficial and erroneous conclusions. The Justice Department also defended closing the investigation in December 1981. Assistant Attorney General

Stephen Trott said that although some of Electric Boat's claims were based on "inventive and farfetched theories," the Department found no clear evidence of criminal intent to defraud the Navy. "The facts known at that time presented no prima facie evidence of false claims," Trott said, adding that "at best, there was circumstantial evidence from which to draw inference ... [that] there was fraudulent intent."

On Aug. 2, 1984, the New York Times reported that the Justice Department had reopened the investigation: A new Federal grand jury in New Haven, CT, was now investigating information supplied by Veliotis to Department officials during his talks with them in Greece in May 1984 (see item 2). Since the statute of limitations had by then expired on the charges of criminal fraud, the jury was now focusing its investigation on possible perjury and obstruction of justice during the Justice Department's original investigation. In October 1984, Senator Charles Grassley, chairman of the Senate Judiciary Subcommittee on Administrative Practice and Procedure, subpoenaed Justice Department documents about the case. The subcommittee is investigating the possibility of mismanagement or wrongful influence on the part of the Justice Department officials who closed the original investigation. The Department declined to forward the documents, citing the need to maintain confidentiality in the face of the new investigation. On Oct. 31, 1984, the subcommittee found then Attorney General William French Smith in contempt for violation of the subpoena. On Nov. 30, 1984, the Washington Post reported that the Department would accelerate the pace of the new investigation in December 1984 by calling new witnesses.

At a Feb. 20, 1985, hearing before the Seapower and Investigations subcommittees of the House Armed Services Committee, Navy Secretary John Lehman said the problems at Electric Boat have now been solved: "There is no cause for believing there is anything wrong with the way General Dynamics is doing business." He ascribed many of the firm's past problems to former Electric Boat General Manager P. Takis Veliotis (see item 2). (Other observers, including General Dynamics executives, have given Veliotis much credit for improving Electric Boat's operations during his tenure as general manager from 1977 to 1981.) Lehman confirmed that General Dynamics removed Veliotis as Electric Boat general manager at the request of the Navy.

He said he saw no need to investigate the wider allegations of fraud dating back to the 1970s, and strongly denied allegations that the Navy conspired with the company back then to bail the firm out of its troubles. Lehman also said, however, that he would like to see Newport News Shipbuilding and Dry Dock Co. of Newport News, VA, become a second potential builder of Trident subs. He said the Navy has been grooming the company to become a second builder, and hopes they can enter competition against General Dynamics by 1988. Newport News is now building a \$300 million submarine construction yard that could handle the large Trident boats.

On Feb. 21, 1985, the Washington Post reported that Gordon McDonald, General Dynamics' chief financial officer, and Edward LeFevre, a vice president for government relations and head of the firm's Washington office, had appeared before the New Haven grand jury.

At a Mar. 25, 1985, hearing before the House Energy and Commerce Committee Subcommittee on Oversight and Investigations, James Ashton, another former general manager of Electric Boat, said he tried to warn General Dynamics Chairman David S. Lewis in 1981 that the company was facing huge cost overruns on the Trident submarines, but was forced out of the company because he "did not support the party line in blaming the Navy" for the company's

problems. According to Business Week (Mar. 25, 1985), Ashton is prepared to testify before the New Haven grand jury.

At an Apr. 2, 1985, hearing of the Joint Economic Committee, Senator William Proxmire released a report by committee staff member Richard Kaufman that concluded: "In 1971, the Navy awarded a contract to General Dynamics (GD) for the construction of seven SSN 688 class submarines, known as Flight I. A contract for the construction of 11 additional submarines, known as Flight II, was awarded in 1973.... General Dynamics bought-in to the Flight II contract by withholding from the Navy information about cost overruns on [Flight I] submarines already being built and by proposing prices that it should reasonably have known were less than the costs of construction. At about the time the contract was awarded, company officials were discussing the need for submitting a claim to obtain reimbursement for cost overruns. General Dynamics' practice of submitting to the Navy one set of estimates concerning manhours and schedules, while withholding other estimates that would have raised greater concerns about contract performance, suggests that the company, in effect, had two sets of records." The report also stated: "A buy-in based on concealment of relevant cost information may be in violation of the certification requirement of the False Statements Act." In response, General Dynamics issued a statement which said, in part: "Our bids on the SSN 688 contracts were submitted honestly and in good faith." At the hearing, Senator Grassley said the Justice Department "ignored the evidence" in dropping its original fraud investigation.

At an Apr. 15, 1985 hearing before the Joint Economic Committee's subcommittee on international trade, finance, and security economics, General Dynamics chief financial officer Gordon E. MacDonald said cost and schedule discrepancies in internal corporate memos resulted from "different people working from different perspectives and operating on different assumptions," and do not represent the corporation's position. Senator Proxmire said: "It seems to me General Dynamics deceived the Navy and knew at the time that it was deceiving the Navy." He told MacDonald: "The denials just don't wash."

Alleged Kickbacks Received by P. Takis Veliotis, Former General Manager of the Electric Boat Division, and Others

The son of a Greek shipowner, Panagiotis Takis Veliotis, by his own account, was born on Aug. 11, 1926, and served in the Greek Navy during World War II. His collegiate-level educational background is in dispute. He emigrated to Canada in 1953 and started work as a maritime draftsman. In 1962, he became general manager of Davie Shipbuilding Ltd. of Quebec, a large cargo-vessel builder. He joined General Dynamics in 1973 as the head of General Dynamics' Quincy, MA, shipbuilding division. In October 1977, he became general manager of both the Electric Boat and Quincy divisions. In November 1981, he became executive vice president of General Dynamics and a member of the company's board of directors. In May 1983, he went to Greece, and a month later, he abruptly resigned from the company. He is still in Greece.

On Mar. 30, 1983, the Wall Street Journal reported that a Federal grand jury was investigating Veliotis and others for taking about \$2.7 million in kickbacks between 1974 and 1979 from Frigitemp Corp., which had received contracts from General Dynamics worth about \$44 million for refrigeration equipment installed on 10 liquid natural gas (LNG) tankers built at the Quincy yard. (Frigitemp filed for bankruptcy in March 1978 and was declared bankrupt in 1979.) The investigation, which dates at least to March 1979 (when the grand jury subpoenaed documents from Frigitemp), became known in



March 1983 because Veliotis and others fought in court to keep certain documents away from the grand jury. (The U.S. appeals court ruled that the documents had to be released.) The case involved the diversion of about \$5 million from Frigitemp through a false billing scheme.

On Sept. 6, 1983, the grand jury indicted four people: (1) Veliotis; (2) James H. Gilliland, his assistant; (3) Gerald E. Lee, Frigitemp's former chairman; and (4) George G. Davis, the company's former senior vice president. The charges: racketeering, conspiracy, filing false and fraudulent claims against the Government, and bankruptcy fraud. Veliotis and Gilliland were indicted for, among other things, accepting \$2.7 million of the diverted funds. When the indictments were handed down, Veliotis, by then in Greece, technically became a fugitive. The Justice Department said that extraditing Veliotis from Greece would be difficult, if not impossible. (Gilliland was arrested in England, but before he could be extradited, he became a fugitive and is believed to be in Europe.)

On Sept. 14, 1983, General Dynamics announced it had filed suit against Veliotis and the other three in Federal court in Delaware to recover about \$8 million in damages resulting from "their conspiracy to defraud the company." The company also filed civil actions in Canada, Massachusetts, and Florida. The company attached Veliotis' General Dynamics stock (69,659 shares) and his home in Milton, Mass. On Nov. 18, 1983, Veliotis countersued General Dynamics from Greece for \$142 million, charging that, by freezing his assets, the company's suits prevented him from pursuing new business opportunities. The company called Veliotis' suit preposterous.

In early December 1983, Lee pleaded guilty on two counts of criminal conspiracy (17 other counts were dropped). On Dec. 20, 1983, a Navy public affairs official said the Navy was reviewing the case to determine whether General Dynamics should remain eligible to receive Navy contracts. In January 1984, the Washington Post reported that Veliotis had offered to tell the Justice Department what he knew of the claims involving the 18 attack submarines (item 1). Veliotis charged that General Dynamics submitted unrealistically low bids for the attack submarines, then filed fraudulent claims to make up the difference. In February 1984, the Justice Department filed suit against Gilliland, Davis, and Lee to recover more than \$1.8 million in kickbacks and misspent subsidies.

On Apr. 29, 1984, Senator Proxmire announced that Veliotis had spoken the previous month with Senate investigators, including Richard Kaufman of the staff of the Joint Economic Committee. These discussions took place in Greece. Proxmire urged the Justice Department to talk with Veliotis. In late April, Veliotis also reportedly spoke with two investigators for the House Energy and Commerce Subcommittee on Oversight and Investigations: Michael Barrett, the subcommittee's staff director, and Peter Stockton, a researcher. In mid-May, the Justice Department announced that it had granted limited immunity to Veliotis and that Veliotis had spoken to three Justice Department officials (James Graham, deputy chief of the Department's fraud section; Donald McCaffrey, a trial lawyer; and an investigator from the FBI) for a total of 16 hours on May 7-9, 1984. Veliotis also handed over documents to the officials. Under the terms of the limited immunity, Veliotis cannot be prosecuted on any information he offers, only on evidence obtained from other sources. (Limited immunity was also granted to Norman D. Victor, Electric Boat's director of strategic planning, who said it was obtained without his knowledge.)

In July 1984, Davis was convicted by a Federal jury on 14 counts of

racketeering and conspiracy, including conspiracy to pay \$2.7 million in kickbacks to Veliotis and Gilliland. In December 1984, Veliotis told Business Week he had recently offered to return to the United States if the Justice Department dropped the kickback charges. Officials from the Department reportedly met with Veliotis in November to consider the offer.

Reportedly, Veliotis has been cooperating with investigators from the Department and from Congress since the spring of 1984. The information, documents, and tape recorded telephone conversations he has provided have served to reopen the central fraud investigation discussed in item 1, and the parallel SEC investigation discussed in item 5. General Dynamics officials argue that Veliotis is a fugitive from law and has a revenge motive against General Dynamics (in part because of the company's suits against him), and that his testimony and evidence consequently cannot be trusted. Veliotis says his information will sustain his charges.

At a Mar. 14, 1985 hearing before the Investigations Subcommittee of the House Armed Services Committee, subcommittee chairman Bill Nichols announced that Veliotis had agreed to be a witness in future committee hearings. According to Business Week (Mar. 25, 1985), a staffer from the Committee met with Veliotis in Greece on Mar. 11 to gather information for future hearings.

#### Alleged Unjustified Billing of Corporate Expenses by General Dynamics

On Sept. 16, 1984, the Washington Post reported that the House Energy and Commerce Subcommittee on Oversight and Investigations was investigating \$22 million in charges billed to the Navy by General Dynamics for the cost of operating two of its ten corporate jets from 1978 to 1983, the issue being whether corporate executives took personal jet trips and then charged the costs to the Navy. General Dynamics categorically denied the allegation. The matter reportedly emerged in August 1984, when subcommittee staffers began examining corporate documents at General Dynamic's headquarters in Clayton, Missouri. The Defense Contract Audit Agency (DCAA) reportedly challenged the billings on the flights. By October 1984, the issue had expanded into a matter of the General Dynamic's billings for various expenses between 1978 and 1983, including meals, entertainment, and country club and resort fees. According to subcommittee investigators, the names of Pentagon and Administration officials and members of Congress were routinely omitted from the vouchers for these expenses. DCAA auditors have similarly questioned these billings.

General Dynamics said the company had charged the Government only for legitimate business expenses and was negotiating with the DCAA on the matter. In mid-October 1984, it was reported that the Naval Investigative Service had opened an inquiry about the \$22 million in corporate jet billings, for which General Dynamics by then had already received \$10.5 million from the Navy.

At a Feb. 20, 1985, hearing before the Seapower and Investigations subcommittees of the House Armed Services Committee, Navy Secretary John Lehman said he expected the Navy to refuse payment on at least \$10 million of the unpaid portion of the \$22 million request. The trips, it was learned, included more than 70 made by General Dynamics Chairman David S. Lewis between the company's headquarters outside St. Louis and his farm in Albany, Ga. According to the New York Times (Feb. 21, 1985), a company spokesman said "Lewis's frequent trips to his farm were a legitimate expense because using the company plane allowed him a flexible schedule and protected him from terrorists." All the same, on Feb. 21, 1985, the Washington Post reported that the firm had withdrawn the \$491,840 in billings for trips made

by Lewis and others.

The next day, the Post reported that Senator Lowell Weicker had demanded an apology from the firm because it did not inform him that it had billed the government for about \$1,000 to cover the costs of a political fundraising party the firm threw for him on Nov. 11, 1981. Weicker found out about the billing as a result of an ABC TV "20/20" broadcast, and said he alerted the general counsel of the Navy about the matter.

At a Feb. 28, 1985, hearing before the House Energy and Commerce Committee Subcommittee on Oversight and Investigations, Lewis admitted "it appears that our entertainment policies have not been adhered to as well as we would wish." He acknowledged "occasional slip-ups" regarding such expenses as the personal air travel. Alerted to one instance in which the cost of boarding a company executive's dog at a kennel was billed to the Government, chief financial officer Gordon McDonald said: "I'll withdraw that one right now." Referring more generally to the questionable billings, he said: "They aren't supposed to do that. That is against the regulations. ...I think we have a good deal of work to do... to make sure that things that are not allowable are not submitted."

In a Mar. 5, 1985, speech to the American Legion, Secretary of Defense Caspar Weinberger announced that the Defense Department would suspend payments to General Dynamics for its general and administrative (overhead) costs until Defense Department auditors complete a review of the company's billing practices. He said that would take at least 30 days, a period during which the firm would have received about \$40 million in payments for overhead costs, which constitute about 8% of the firm's billings to the Government. Weinberger also announced a new "get-tough policy" that would require all defense contractors to certify under penalty of perjury that their billings to the Government do not include any charges for political, entertainment, or other expenses not made directly for the benefit of the Government and required for the performance of the contract involved. Some observers discounted the payment suspension and get-tough policy as a token action meant to maintain popular support for defense spending during Congress' consideration of the proposed FY86 defense budget.

In a Mar. 14, 1985, hearing before the Investigations Subcommittee of the House Armed Services Committee, Deputy Secretary of Defense William H. Taft IV said the firm's billing practices were not typical of other military contractors. In light of the inquiry into the billings, the Navy announced on Mar. 18, 1985, that it had decided to award three submarine overhaul contracts worth \$24 million to a company other than Electric Boat. The Navy was leaning toward giving the contracts to Electric Boat, but reconsidered and gave them instead to the naval shipyard at Portsmouth, NH.

In a Mar. 25, 1985, hearing before the Oversight and Investigations Subcommittee, Lewis said the firm would withdraw \$23 million in "inappropriate" overhead charges. The \$23 million in billings was among \$63.6 million that the Defense Department has challenged out of a total of \$170 million in overhead billings submitted by the firm between 1979 and 1982.

On Mar. 25, 1985, Business Week reported that the Internal Revenue Service had joined the Defense Contract Audit Agency in investigating many of the company's expense vouchers.

On Apr. 5, 1985, the Defense Department announced that the intense review

ordered a month earlier by Secretary Weinberger (and conducted by 20 auditors at the Defense Contract Audit Agency) concluded that the Government had overpaid General Dynamics \$244 million for overhead costs since 1973. Many of the billings were for workmen's compensation, use of company computers, corporate acquisitions, and plant "rearrangements." Of this total, \$90 million in unacceptable billings were previously identified and had already been recovered. Of the remaining \$154 million, \$30 million was recovered by Secretary Weinberger's month-long freeze of overhead payments to the company. The next day, the Defense Department announced that the remaining \$124 million would be recovered by deducting that amount from the next monthly "progress payment" to be paid to the firm. Progress payments cover costs for labor and materials used in constructing the items being procured; General Dynamics' next progress payment was going to be about \$700 million, but would now be about \$576 million. (The \$23 million refund promised by General Dynamics, if received, would be applied against the \$124 million sum.) The Defense Department also said Secretary Weinberger's freeze on overhead payments would continue until the firm reformed its billing procedures.

In March and April, many defense contractors protested the certification requirement for overhead billings announced by Weinberger on Mar. 5, 1985. The contractors argued that most overhead expenses could not be allocated to specific contracts and that the certificate exposed corporate officers to prosecution for perjury. Several firms refused to sign the certificate, and payments for their overhead billings were frozen.

On Apr. 16, the Defense Acquisition Regulatory Council announced three interpretations of Weinberger's certification requirement: (1) certification would not be required on each bill unless the billing rate was changed after Mar. 20, 1985; (2) the requirement would not prohibit billing of indirect expenses that could not be attributed to a specific contract; and (3) if a billing was found to be unallowable, no prosecution would be brought against the signing corporate officer if he signed the certificate "in good faith."

Some congressional observers saw the interpretations as a watering down of the certification requirement. Pentagon spokesman Michael I. Burch responded by saying there was no "softening of the rule that contractors must certify overhead billing as proper." He said neither the language nor purpose of the certificate had been changed. The Hartford Courant (Apr. 17), however, reported that "a high-ranking procurement officer who asked not to be named said the Pentagon had backed down from trying to force contractors to certify their claims because it feared they might successfully contest the requirement in court."

At an Apr. 24 hearing before the oversight and investigations subcommittee of the House Energy and Commerce Committee, Department of Defense Inspector General Joseph H. Sherick said he would recommend, in light of the overhead billings dispute, that Lewis and MacDonald be debarred or suspended from further Federal contracts. Debarring the two officers would likely prevent General Dynamics from receiving further contracts until Lewis and MacDonald resigned from the firm. He also said that 45 of the Nation's 100 largest defense contractors were under criminal investigation by the Defense Department. Frank C. Conahan of the General Accounting Office said all major defense contractors routinely billed the Pentagon for entertainment, personal travel, promotional giveaways, and other questionable items. He said an examination of the 11 top defense contractors found that Pentagon auditors generally question these overhead billings, but that less than half the billings were eventually disallowed by negotiators. After the hearing, General Dynamics issued a statement saying: "As far as we are concerned,

there are no grounds whatever for suspension or debarment of either the company or of its senior executives."

The day after the hearing, Burch said Weinberger would consider Sherick's formal recommendation for debarment when it came through. Lewis responded by saying that while his retirement was "overdue," he would remain in his job until the allegations against the firm were resolved.

On Apr. 28, a team of auditors set up in early April by the House Armed Services Committee filed an interim report stating it had already found that seven large contractors had all charged the Pentagon for questionable overhead items. The seven firms were General Dynamics, Sperry Corp., Newport News Shipbuilding and Dry Dock of Tenneco, Inc., the Bell Helicopter Unit of Textron, Inc., McDonnell Douglas Corp., Rockwell International, and Boeing Co. In all, the auditors found \$109.7 million in "absolutely inexcusable" overhead billings. Representative Nichols, who supervised the audit, said findings showed that "the system is the problem," rather than the behavior of one or a few contractors.

On Apr. 30, the Defense Department announced it had recovered all \$244 million in disallowed overhead billings from General Dynamics but had not yet decided whether to debar Lewis and MacDonald.

On May 2, Sherick wrote to Lehman formally recommending debarment for Lewis, MacDonald, and executive Vice President George Sawyer. (See also item 6.) Sherick cited "improper, and possibly illegal, conduct." That same day, Lewis announced at the firm's annual stockholders meeting that the firm would recover "the great majority" of the \$244 million and that "If the Defense Department finally does decide to debar one or both of us, our board has directly authorized management to follow all steps available through the courts to overturn any such action."

On May 7, the Hartford Courant reported the Navy was delaying the signing of a contract with General Dynamics (worth about \$600 million) for construction of the basic hull of the 12th Trident. The delay, said the paper, came "amid widespread speculation that contract hold is linked to a move to oust" Lewis and MacDonald. General Dynamics and the Navy denied the connection, but the Navy used a similar tactic in 1981 to force the replacement of then-Electric Boat General Manager P. Takis Veliotis (see item 1).

On May 15, the auditing team set up by the House Armed Services Committee released its final report on the questionable billings by the seven major defense contractors. Representative Nichols said the report demonstrates that the questionable billings submitted by General Dynamics are not "an aberration."

On May 21, Lehman announced that the Navy was: (1) suspending the Electric Boat and Pomona, CA divisions of General Dynamics from all new contracts; (2) cancelling \$22.5 million in contracts held by the two divisions; and (3) fining the firm \$676,283 for gratuities given to Admiral Hyman G. Rickover (see item 4). Lehman cited "a pervasive corporate attitude that we find inappropriate to the public trust." He rejected for the time being Sherick's recommended debarment of Lewis, MacDonald, and Sawyer on the grounds that he had no strong evidence to single out the three for punishment, but left open the option of future debarment should investigations warrant such action. He said the contract suspension against Electric Boat and Pomona would not be lifted until General Dynamics: (1)

established a code of ethics for its employees; (2) certified the validity of outstanding overhead billings; and (3) resolved \$75 million in disputed overhead billings with the Navy. Lehman said he saw no reason why the firm and the Navy could not restore normal business relations in a few weeks, assuming the firm would not be "confrontational and litigious." General Dynamics issued a statement saying: "We have not seen the documents, but we are determined to work quickly and constructively with the Navy to resolve all the issues raised by today's decision."

Lehman's actions were criticized for not being strong enough. Senator Proxmire said: "It is further proof of the Navy's inability to police itself and crack down on waste, mismanagement and corruption in defense contracts." Representative Dingell said: "What Lehman has done in the General Dynamics case doesn't come near the wrath rained down on the heads of smaller contractors." Representative Nichols, however, said that Lehman's actions were "a pretty strong dose of medicine."

On May 22, Lewis announced that Stanley C. Pace of TRW had been appointed vice chairman of General Dynamics and would succeed Lewis as chairman "not later than" Jan. 1, 1986. On the Senate floor, Senator Proxmire said Lehman had "tapped the company on the wrist." "If Lewis's stepping down was part of a deal between General Dynamics and the Navy to get anyone off the hook of ultimate responsibility, it won't work," the Senator said. Lehman said he was informed of the appointment on May 18, but that this did not affect his decision on how to penalize the firm because the penalties had already been selected.

On May 23, General Dynamics board member Albert Jenner said that Lewis, after giving up chairmanship of the firm, would remain on the firm's board of directors.

Alleged bribes and gratuities given by General Dynamics to Admiral Hyman G. Rickover, Former Head of the Navy's Nuclear-Powered Shipbuilding Program, and others.

Clause 54 of the Navy's attack submarine contracts with General Dynamics (a clause common to Navy shipbuilding contracts) provides for their termination upon a finding that "gratuities (in the form of entertainment, gifts, or otherwise) were offered or given by the Contractor ... to any officer or employee of the Government with a view toward securing a contract or securing favorable treatment with respect to the awarding or amending, or the making of any determinations with respect to the performing of such contracts; provided, that the existence of the facts upon which the Secretary or his duly authorized representative makes such findings shall be in issue and may be reviewed in any competent court."

By mid-1984, investigators for the House Energy and Commerce Subcommittee on Oversight and Investigations uncovered evidence that General Dynamics bought and delivered \$1,125 worth of jewelry to Admiral Rickover, who was then in charge of the Navy's nuclear-powered shipbuilding program, and falsified company books and records to disguise the jewelry as 10 retirement watches. (Rickover subsequently admitted accepting gifts from General Dynamics and other defense contractors, but said that: (1) other Government employees had done the same; and (2) the gifts did not influence his dealings with General Dynamics.) In a July 25, 1984, letter to Navy Secretary Lehman, Subcommittee Chairman Dingell stated that, in his opinion, the gifts constituted a "clear and knowing violation of Clause 54." He asked Lehman to inform him by Aug. 3, 1984, "of actions you plan to take to enforce Clause

54 or otherwise make inquiry about General Dynamics and the apparent violation of their Navy contracts."

On Nov. 19, 1984, the Washington Post reported that Representative Dingell would ask the Navy to cancel its contracts with General Dynamics and take over control of Electric Boat's submarine construction facilities because of, among other things, the gifts to Rickover. That same day, Dingell made public a letter he had sent to Secretary Lehman asking him to produce a plan by Dec. 7, 1984 for taking over Electric Boat's submarine yards. In late November, Lehman stated that he had set up a 3-man board to look into the matter of the jewelry. Lehman also said that he believed the gifts were not valuable enough to justify the termination of any contracts, though some penalty might be imposed. Dingell said that this statement would prejudice the board's findings.

At a Feb. 28, 1985, hearing before the Oversight and Investigations Subcommittee, General Dynamics Chairman David S. Lewis acknowledged that \$1,125 worth of jewelry was given to Admiral Rickover, but stated that it wasn't an "illegal gratuity." "While making gifts to him may have been ill-advised and is certainly regretted, nothing was ever given to Admiral Rickover with an intent to obtain a contract or to secure favorable determination." Gordon McDonald, the firm's chief financial officer, said Rickover requested the jewelry for his wife. He said he didn't know it was listed in company records as 10 retirement watches, but admitted he directed William Pedace, the company's public affairs director, to buy the jewelry. On Mar. 21, 1985, the Hartford Courant reported that, on the basis in part of McDonald's testimony, the Defense Investigative Service and Naval Investigative Service were reviewing Pedace's security clearance. According to the article, Representative Dingell has asserted that Pedace admitted falsifying the records to list the jewelry as the watches. The investigation was disclosed Feb. 20, 1985, when Dingell made public a letter to him from Deputy Secretary of Defense William H. Taft IV.

On May 21, 1985, as a part of a series of actions to penalize General Dynamics (see item 3), Secretary of the Navy John Lehman announced that the Navy was fining the firm \$676,283.30 for gifts given to Rickover. Lehman said he was acting on the basis of an investigation by the Navy Gratuities Board, which found a pattern of gift-giving to Rickover by General Dynamics, Newport News Shipbuilding and Dry Dock of Tenneco, Inc., and General Electric. Between 1961 and 1977, General Dynamics gave Rickover items with a total value of \$67,628.33. Rickover "encouraged or even demanded" many of the items. The firm was fined ten times this amount -- the maximum allowable under Federal law. Most of the gifts were "trinkets."

Lehman also sent a nonpunitive letter of censure to Rickover. He said this was the maximum possible action the Navy could take against the retired Admiral, the statute of limitations for any possible criminal charges having expired. Lehman said he had "mixed feelings" about censuring Rickover. He said "a higher standard is expected of an admiral in the United States Navy," but added that the Gratuities Board found no evidence that Rickover ever favored a contractor and that Rickover was "always rigorous in negotiations with General Dynamics and very tough." Lehman said Rickover's "fall from grace with these little trinkets should be viewed in the context of his enormous contribution" to the Navy.

Rickover released a statement through his lawyer saying his "conscience is clear" with respect to the gifts. "No gratuity or favor ever affected any decision I made."

Alleged Withholding of Financial and Performance Data by General Dynamics

On July 27, 1984, the Wall Street Journal reported that the Securities and Exchange Commission had investigated General Dynamics from June 1978 to February 1982 on, among other things, the question of whether the company should have recorded losses in 1976 and 1977 instead of assuming that its cost overruns would be reimbursed by the Navy, and whether the company, by not recording these losses, in effect misrepresented its financial condition to its shareholders and the SEC.

On Sept. 26, 1984, the Washington Post made public the contents of two telephone conversations between Veliotis and executives at General Dynamics that were secretly taped by Veliotis while he was working at Electric Boat. The Post reportedly got the tapes from Veliotis. In the first tape, dated Nov. 30, 1977, Veliotis was told that General Dynamics would issue a press release containing an estimated delivery date for the first Trident (the USS Ohio) that Veliotis insisted could not be met, allegedly to keep up the value of General Dynamics's stock. In the second tape, made in October 1981, General Dynamics's Lewis told Veliotis that he wanted to withhold internal corporate estimates showing a \$100 million overrun on attack submarines it was constructing, allegedly to hold up the General Dynamics's stock price and to insure the success of negotiations then underway with the Navy concerning the awarding of future submarine contracts (see item 1). General Dynamics acknowledged the authenticity of the conversations, but said it did not violate disclosure rules, and that claims eventually filed on the attack submarines in question were prompted by the discovery in 1979 of bad welds and other problems in the attack submarines. On Sept. 27, 1984, the Post reported that Representative Dingell had written to SEC chairman John Shad, asking the SEC to investigate whether General Dynamics withheld unfavorable corporate financial data or otherwise misled the public. On Oct. 3 and 4, 1984 the Journal and the Post reported that the SEC had begun its investigation on Oct. 2 by questioning Gordon E. MacDonald, General Dynamics's chief financial officer, and Robert H. Duesenberg, its general counsel.

At a Feb. 28, 1985, hearing of the House Energy and Commerce Committee's Subcommittee on Oversight and Investigations, Lewis denied withholding information on construction delays. At that point, Representative Gerry Sikorski played the tape of the November 1977, conversation. According to the New York Times (Mar. 1, 1985), on the tape "[Chief financial officer Gordon] McDonald seemed to suggest that Mr. Lewis wished to mask the true scope of the slippages from public view." McDonald said the tape was not an accurate portrayal of his conversations with Veliotis. He said he believed the tape might not include everything that was said.

At an Apr. 2, 1985, hearing of the Joint Economic Committee, Senator William Proxmire released a report by committee staff member Richard Kaufman that criticized the SEC for closing its 4-year investigation in 1982 without taking testimony from company officials: "General Dynamics reported in its financial reports a loss on the submarine contracts for the first time in 1978, following the settlement of the claim. But the company knew as early as 1974 that there would be large losses on the contracts. Had the Securities and Exchange Commission followed its own precedents in cases involving defense contractors who fail to disclose losses, action might have been taken against General Dynamics and its outside auditing firm, Arthur Anderson & Co." In response, General Dynamics issued a statement which said, in part: "Our financial reports were timely and accurate."



Alleged Conflict of Interest of George A. Sawyer, a Former Assistant Secretary of Navy

In April 1981, George A. Sawyer resigned as president of John J. McMullen Associates, a small, New York-based maritime architectural company. On June 23, 1981, he was sworn in as Assistant Secretary of the Navy for Shipbuilding and Logistics, and in June 1983, he left the post to become an executive vice president of General Dynamics for land systems and international sales.

On Dec. 12, 1983, the New York Times reported that "Sawyer, when he was Assistant Secretary of the Navy for shipbuilding and logistics, approved large noncompetitive contracts for the companies that employed him immediately before and after his Government service, according to public records." According to the Times, on July 16, 1981, Sawyer "took unusual steps to award a [\$1.13] million contract to McMullen [to do work on the battleship New Jersey]. The general counsel of the Navy [Walter T. Skallerup Jr.] said in an interview the steps were contrary to Navy policy on conflicts of interest. While with the Navy, Mr. Sawyer was also a supporter of Electric Boat, at a time when other top officials of the Navy were sharply critical." Skallerup also said that Sawyer's employment dealings with General Dynamics were proper and in conformity with Federal laws and regulations. Members of the Joint Maritime Congress, a maritime industry association, had raised the issue with the Justice Department's criminal division. Mr. McMullen said "his company lost a number of other Navy contracts over the last two years because of Mr. Sawyer's efforts to bend over backward to avoid favoritism."

The article said that "McMullen Associates and General Dynamics were beneficiaries of another project pushed by the Navy and Mr. Sawyer, the leasing of cargo ships. The leasing project came under heavy congressional criticism because of the potential revenue losses caused by tax shelters."

In an interview with the Times on Dec. 21, 1983, Sawyer denied favoring McMullen and said that, while in Government, he removed himself from all contract decisions affecting the company, and went out of his way to avoid perception of conflict of interest by having his deputy handle all McMullen-related matters. Navy officials said that, in Sept. 1983, they looked into the matter and concluded that McMullen received no advantage over other firms in the awarding of noncompetitive contracts while Sawyer was in office. In early August 1984, Senator Proxmire wrote to Navy Secretary Lehman to ask the Navy to "inquire fully into Mr. Sawyer's relationship with General Dynamics while he was a Navy official and whether there was any discussion of his prospective employment."

At a Mar. 25, 1985, hearing before the House Energy and Commerce Committee's Subcommittee on Oversight and Investigations, Representative Gerry Sikorski presented evidence, including handwritten notes made by General Dynamics Chairman David S. Lewis, that Sawyer began talks with the company about future employment in early March 1983. Sawyer accepted his current position with the firm on May 31, 1983, and on May 5 authorized the Navy to negotiate a submarine-construction contract with General Dynamics. An opinion by the general counsel of the Navy absolved Sawyer of any conflict of interest, but Sikorski argued the opinion was based on a letter from Sawyer stating he had not negotiated with the firm about his job until May 20.

At the hearing, Lewis confirmed the substance of a recorded conversation

he had with P. Takis Veliotis [see item 2] on Aug. 25, 1981. In the conversation, Lewis recounted to Veliotis how Mr. Sawyer had promised while still Assistant Secretary of the Navy to help the firm in its difficult negotiations to obtain additional submarine contracts [see item 1]. According to the Washington Post (Mar. 26, 1985), Lewis admitted that he called Sawyer in March 1983 "and asked him to visit the [firm's] St. Louis headquarters 'with the idea that he might be interested in employment.... It was exploratory on both sides.' Lewis also said General Dynamics paid for Sawyer to fly to St. Louis in March and to two other out-of-town interviews over the next two months. The panel said Sawyer did not list these flights on his financial disclosure statement. Lewis confirmed that he had other telephone conversations with Sawyer and had made notes about Sawyer's possible salary and assignment.... [Sikorski] said Lewis had seen Sawyer's letter and knew that it was 'inaccurate' and 'based on false statements,' but failed to tell anyone. Lewis replied that he did not consider the job talks to be 'negotiations' until late May." According to the Post, a Federal grand jury in New Haven, CT, was investigating whether Sawyer violated conflict of interest laws in his move to General Dynamics.

Alleged Conflict of Interest by Edward Hidalgo, Another Former Assistant Secretary of the Navy

Edward Hidalgo was Assistant Secretary of the Navy in 1977 and 1978, and was the leading Navy official involved in the June 1978 settlement of General Dynamics's claims (see item 1). He became Navy Secretary Oct. 24, 1979, and remained in the post until Jan. 20, 1981. On May 5, 1984, the Washington Post reported that Hidalgo, after leaving Government, had since been hired as a consultant by General Dynamics four times to help the company sell F-16 fighter planes to Spain. According to the article, he made his first trip to Spain in November 1981, and his fourth trip in October 1983. As of June 1984, he had charged General Dynamics \$70,000 for his services. Hidalgo has denied any relationship between the June 1978 settlement and his subsequent employment at General Dynamics, pointing out that F-16s are Air Force planes rather than Navy planes, and has defended the terms of the June 1978 settlement. He said he was hired by General Dynamics in part because he was a Spanish-speaking international lawyer.

At an Apr. 2, 1985, hearing of the Joint Economic Committee, Senator William Proxmire criticized Hidalgo for "a clear conflict of interest" in accepting \$66,000 in consulting fees from General Dynamics after negotiating the 1978 settlement and leaving the Navy. Hidalgo strongly defended the terms of the settlement and said there was "no conceivable conflict" between his work while in the Navy and his subsequent work for General Dynamics on the F-16 export effort. "I have no apology to make for that," he said, criticizing the media for spreading "irresponsible allegations and innuendoes."

Alleged security violations by General Dynamics

The design and construction methods of the Navy's submarines are among the Nation's most sensitive military secrets. On July 5, 1982, nine protestors entered the Electric Boat shipyard at Groton, CT -- four by canoe and five by cutting through a perimeter fence -- and caused \$21,000 in damage to the Trident submarine USS Florida and two sonar spheres in a storage facility.

The incident prompted calls for greater yard security. Perimeter lighting was installed, and 24-hour surveillance was instituted along the yard's 4,200-foot waterfront. All the same, on Nov. 14, 1982, seven more intruders

entered the yard by cutting through a perimeter fence. They were discovered more quickly than the intruders in the first break-in, but three of the seven reached the Trident submarine USS Georgia and caused slight damage to it.

In response to the second break-in, the Navy issued a statement saying it was "vitally concerned about incidents of this nature." The House Armed Services Committee's Investigations Subcommittee held hearings on the yard's security on Dec. 1, 1982. The subcommittee found the yard's security measures inadequate and expressed concern that "spies, saboteurs, and terrorists" might be able to penetrate the yard "with devastating results." The subcommittee recommended additional security measures and greater emphasis by the Navy on security at the yard and other sensitive industrial facilities.

In its Feb. 20, 1984, issue, Newsweek magazine reported "rumors" that P. Takis Veliotis [see item 2] had threatened to provide the Soviet Union with classified information on the Navy's submarines: "Sources close to the fugitive deny that he has ever made any such threat, but Newsweek has learned that both General Dynamics and the Navy have investigated whether Veliotis ever obtained information about submarine nuclear systems or the 'acoustics' [technology] that permits them to run silently to evade Soviet hunters. There is no direct evidence he did, but intelligence agents are watching him closely. Says a senior Navy official, 'we can't rule out the possibility that he may still have agents in the construction process or that he may have stolen some documents.'"

In its June 25, 1984, issue, Business Week reported that Veliotis was "livid" about the report: "Vehemently denying the allegation, he calls GD officials 'those sons of bitches,' implying that he thinks they started the rumor. [General Dynamics Chairman David S.] Lewis denies this, adding that he doubts Veliotis ever threatened to leak secrets. 'He's not the type,' says the GD chairman. Veliotis has started criminal libel proceedings in Greece over the Newsweek story."

On Mar. 11, 1985, the Washington Post reported that Veliotis had given the Justice Department a copy of an internal Electric Boat quarterly financial report containing 19 highly sensitive photographs of a Trident submarine: "Veliotis said he turned over the photographs to the Justice Department in part to counter reports that some Navy officials were concerned that he would use his detailed knowledge of U.S. submarine secrets to force prosecutors to drop his indictment [see item 2]. Justice Department officials said last week that they have received no indication from Veliotis during his 18 months under indictment that he would try to use such leverage." Veliotis said he obtained his copy in March 1983 -- nearly a year after the expiration of his top-secret security clearance -- from Gary S. Grimes, the current general manager of the company's Quincy shipbuilding division and Veliotis' former deputy. Grimes said he didn't give a copy of the report to Veliotis.

Twelve or more copies of the report were reportedly used in presentations to Lewis and other company officials at meetings normally attended by all company division managers and their support staffs. According to the Post article and a similar one printed by the New York Times the next day, Vice Admiral Earl B. Fowler, chief of naval shipbuilding, wrote to Lewis on Feb. 15 saying that, by publishing the photos in the report, the company showed a "blatant disregard for and breach of security regulations." On the basis of a partial inquiry, Fowler wrote, top Navy officials had concluded that the company had breached security regulations. The unauthorized release of the photos constituted a "willful violation" of the company's Trident contract.

The Navy is conducting "a thorough investigation into the creation of these documents and their release," and will "take appropriate action" after receiving the results. Possible sanctions included criminal penalties and "revocation of individual or facility security clearances."

At a Feb. 28, 1985, hearing before the House Energy and Commerce Committee's Oversight and Investigations Subcommittee, chairman John Dingell disclosed that he had written to Navy Secretary John Lehman asking him to investigate the matter and provide a full report to the subcommittee on the photos.

In another letter to the Defense Department, dated Mar. 7, Dingell referred to both the photos and the July 1982 break-in and inquired about the qualifications of Richard F. Ryan, chief of security at the Electric Boat shipyard. In response, he received a letter from Deputy Secretary of Defense William H. Taft IV saying that the Defense Investigative Service and Navy Investigative Service were reviewing Ryan's security clearance. Taft wrote that any evidence of criminal wrongdoing would be referred to the Justice Department. General Dynamics had no comment on Ryan's case.

Dingell also announced at the Feb. 28 hearing that the Department of Defense was reconsidering the top-secret security clearance granted to Lester Crown, a member of the company's board of directors and a son of Henry Crown, the company's largest stockholder and chairman of its executive committee. Crown was granted the clearance and elected to the board in 1974. That same year, however, Crown was involved in a case concerning the bribery of Illinois state legislators and the falsification of corporate vouchers to cover the payments. Crown was granted immunity in the case, and his testimony, in which he admitted making payments to the assemblymen, helped convict five of the lawmakers. In a letter to Dingell, Secretary of Defense Caspar Weinberger said the company did not inform the Defense Department of the case when Crown's application was being considered, and that this failure may have violated a "contractual obligation." The Secretary and various congressional parties are investigating why General Dynamics did not inform the Defense Department of the case; the congressional parties are also investigating why the Defense Department didn't find out about it on its own.

Lewis said at the hearing that he supported Crown and backed his election to the board in 1974 because Crown's role in the bribery case was an "aberration" for which Crown was "deeply regretful," and since Crown's father is a major owner of the company, it was "in the interest of the stockholders" for a family member to be on the board.

On Apr. 3, 1985, the Hartford Courant reported that a guard fired from the Electric Boat yard on Mar. 14 did not have his uniform, his badge, and a key to some yard buildings confiscated by the firm. Another former guard was allowed to keep "eight or nine" uniforms. According to the fired guard, "With the badge and the uniforms and the key, someone could walk all over the yard. I could give my badge to the Trident Nine" -- the protestors involved in the July 1982 break-in. According to the article, House Armed Services Committee staff members visited the yard on Apr. 1. Staff members William T. Fleshman and Robert E. Schaefer interviewed the fired guard and others. Fleshman also said he would travel to Greece on Apr. 7 to speak with P. Takis Veliotis (see item 2) on the topic.

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