

# Investigation leads to significant reduction in False Claims Act damages

The False Claims Act carries penalties and triple damages for knowingly submitting a false or fraudulent claim for payment to the US government.

## Client's challenge

Government auditors alleged that a large shipbuilding company was illegally charging millions of dollars to the government's Independent Research and Design (IR&D) accounts to recover generic or common class design effort costs for a new class of tanker ships. After performing an investigation, the government asserted that the claims and bills from the shipbuilding company that included the IR&D as allowable indirect costs violated the False Claims Act. The shipbuilding company and its legal team sought assistance from PricewaterhouseCoopers (PwC) to help disprove these allegations of fraud.

## PricewaterhouseCoopers' Advisory solution

PwC assembled a team of forensic analysts to investigate and disprove the government's allegation that the client breached the False Claims Act. The team applied forensic techniques to target key records early in the investigation and decipher complex patterns of electronically stored data more quickly and thoroughly than traditional methods would have allowed.

After systematically examining the company's records and interpreting cost regulations, the team developed a counterposition to the government's charges by demonstrating that:

- The government did not show how it satisfied the applicable accounting rules for reclassifying the IR&D costs as direct costs (i.e., identifiable to a specific cost objective). Therefore, PwC developed a position that stated the company's accounting was acceptable under the regulation.
- The government had not considered the specific payment terms and conditions of individual contracts, which significantly raised the amount it was seeking for the alleged damages.
- The government ignored cost withholding amounts.

## Impact on client's business

As a result of PwC's findings, our client settled the case for an amount significantly below the government's original claimed damages amount. In addition, no False Claims Act penalties were assessed against the client. Had penalties under the Act been assessed, the shipbuilding company would have been required to pay the cost for the accounting discrepancies as well as triple damages equivalent to three times the accounting costs. Additionally, the work PwC performed helped the client avoid potentially significant reputational damage had the US government found fraud under the False Claims Act.

### For more information:

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