
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**CONTRACT WITH LOCKHEED MARTIN
GOVERNMENT SERVICES, INC. FOR
DIGITAL IMAGING SERVICES**

November 2008

A-04-08-18066

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: November 20, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: Contract with Lockheed Martin Government Services, Inc., for Digital Imaging Services (A-04-08-18066)

OBJECTIVE

The objectives of our audit were to ensure (1) the services and related costs Lockheed Martin Government Services, Inc. (Lockheed), charged the Social Security Administration (SSA) under Contract Number SSOO-05-40013 adhered to the negotiated contract terms and applicable regulations and (2) SSA personnel properly monitored the contract.

BACKGROUND

Electronic Disability (eDIB) is a major SSA initiative to automate and improve the disability claims process. Under eDIB, an electronic claims folder is created for individuals applying for Disability Insurance benefits. Before the implementation of eDIB, the disability claims process involved gathering paper evidence and assembling the documents into a paper-based disability claims folder. The paper folder was then mailed to the SSA components responsible for processing the claim.¹ Using eDIB, SSA captures disability evidence electronically and stores it in an electronic claims folder. The electronic folder can be easily and instantly accessed by all components involved in processing a disability claim, thereby eliminating the delay involved with mailing paper folders between components.

Under eDIB, any paper medical and non-medical evidence received to support a disability decision must be converted to a digital (electronic) image. To aid in this process, in August 2005, SSA entered into a 5-year Blanket Purchase Agreement (BPA) with Lockheed for nationwide scanning services. Under the BPA, Lockheed scans paper documents, creates quality digital images, and securely transmits the images to SSA. Lockheed also stores and destroys the imaged paper documents and

¹ The components involved in the disability claims process include State disability determination services (DDS) and SSA's field offices, Offices of Disability Adjudication and Review and Disability Processing Branches.

protects the confidentiality of both the electronic images and the paper documents in its custody. The cost of the scanning service over the 5-year period is estimated at about \$124 million. Table 1 details the contract costs during our audit period.

Table 1: Contract Costs by Service Period

| Year | Contract Service Period | Cost |
|-------------|--|---------------------|
| 1 | November 2005 ² – August 2006 | \$22,047,459 |
| 2 | September 2006 – August 2007 | \$26,989,727 |
| 3 | September 2007 – December 2007 | \$8,840,884 |
| | Totals | \$57,878,070 |

RESULTS OF REVIEW

The services Lockheed provided and costs it charged SSA generally adhered to the contract terms. Lockheed provided SSA with quality digital images of paper documents in a timely manner. The unit prices charged to SSA agreed with the contract prices, and the quantity of services billed agreed with the contractor's production reports. Lockheed submitted the invoices promptly, and SSA made timely and accurate payments. Finally, SSA personnel properly monitored the contract.

However, SSA could save as much as \$67,311 a month in shipping and related costs by reducing the number of paper documents Lockheed is required to forward (send) to SSA components and State DDSs. The paper documents being forwarded have already been scanned, and the electronic images are available to their users. As such, we believe shipping scanned paper documents—which may cost about \$1.6 million over the remainder of the contract—is unnecessary.

SSA COULD REDUCE SHIPPING AND RELATED COSTS BY NOT FORWARDING PAPER DOCUMENTS THAT HAVE ALREADY BEEN SCANNED

SSA could save as much as \$67,311 a month—or about \$1.6 million over the remaining 2 years of the contract—by only shipping documents that DDSs and SSA components definitely need to verify a digital image or add to a paper case file.

Lockheed creates digital images of all paper documents it receives. However, in certain situations, Lockheed's contract with SSA requires that it forward already-scanned paper documents to a State DDS or SSA component. Most paper documents are forwarded

² Lockheed began providing services under the BPA on November 8, 2005.

because SSA's barcode³ is missing or damaged or the barcode instructs Lockheed to forward the paper document to the component that initially requested the information.⁴ Because the digital image of these documents is available to SSA users, we believe shipping the source paper documents to DDS and State components is unnecessary and costly. In lieu of forwarding documents, Lockheed could store these documents with other imaged documents for future reference, if needed.

Cost of Forwarding Documents with Missing or Damaged Bar Codes Could be Reduced

SSA could save as much as \$42,306 a month—or about \$1 million over the remaining 2 years of the contract—by not forwarding paper documents that have already been scanned, but had a missing or damaged barcode. Table 2 calculates the cost savings that could be achieved by not forwarding these documents.

Table 2: Cost Savings—Documents with a Missing or Damaged Barcode

| | |
|--|-------------|
| Average Monthly Cost for Shipping Paper and Other Documents ⁵ | \$69,605 |
| Percent of Forwarded Documents with a Missing or Damaged Barcode | 62.6 |
| Monthly Cost Savings Before Destruction and Storage Costs to be Incurred from Not Forwarding Documents (\$69,605 X 62.6 percent) | \$43,573 |
| Less: Destruction and Storage Costs to be Incurred | \$1,267 |
| Adjusted Monthly Contract Savings | \$42,306 |
| Number of Months Remaining on the Contract | 24 |
| Total Contract Savings (\$42,306 X 24 months) | \$1,015,344 |

SSA's barcode, which should be included with all documents sent to Lockheed, provides information to electronically identify the document. However, Lockheed occasionally receives documents with no, or a damaged, barcode. When this occurs, Lockheed is still required to scan the document and transmit the electronic image to the responsible DDS or SSA component. To enable transmission, Lockheed manually inputs the site location into its system.

³ DDSs and SSA components are required to generate and include a barcode with all information requests. The barcode allows Lockheed to electronically capture the DDS or component site (requesting site), the claimant's Social Security number, document type, disposition codes (instructs the routing of the imaged or paper source document), and a document control number.

⁴ Lockheed is also required to forward (1) original documents (such as an original birth certificate, driver's license, and Social Security card) that must be returned to the claimant and (2) documents DDSs and SSA components request from Lockheed's storage. Combined, these items represent 0.4 percent of the documents forwarded. We did not question the cost of shipping these documents.

⁵ The average monthly shipping and related costs are based on the first 4 months of the third contract service period—September through December 2007. We believe this period best represented the current contract shipping costs.

The DDS or component that receives the image indexes it to the claimant’s electronic claims folder. To index the document, staff must verify the claimant’s Social Security number, the document type and the evidence request number. Typically, DDSs and SSA components verify this information using Lockheed’s electronic image, not the forwarded paper document.

In conjunction with our audit, SSA’s Office of Operations (Operations) surveyed State DDSs to determine whether the paper document was needed to verify Lockheed’s manual inputs. In general, the survey found DDS staff never or rarely referred to the forwarded paper documents. Rather, staff used the digital image—a copy of the paper document. As such, Operations is considering a national pilot that would determine whether these documents could be simply stored at the scanning facilities for future reference.

In addition to the cost savings, storing the paper documents at the scanning facility would reduce the risk of inadvertent loss of personally identifiable information that could result from placing medical and non-medical evidence back into the mail system.

Costs of Forwarding Documents for Inclusion in Paper Folders Could be Eliminated

SSA could save as much as \$25,005 a month—or about \$600,000 over the remaining 2 years of the contract—if DDSs and SSA components do not instruct Lockheed to forward paper documents when a paper folder may be involved. Table 3 calculates the cost savings that SSA could recognize if it implemented this practice.

Table 3: Cost Savings—Documents for Inclusion in Paper Folders

| | |
|---|-----------|
| Average Monthly Cost for Shipping Paper and Other Documents | \$69,605 |
| Percent of Returned Documents for Inclusion In Paper Folders | 37.0 |
| Monthly Cost Savings Before Additional Destruction and Storage Costs to be Incurred from Not Forwarding Documents (\$69,605 X 37.0 percent) | \$25,754 |
| Less: Destruction and Storage Costs to be Incurred | \$749 |
| Adjusted Monthly Cost Savings | \$25,005 |
| Number of Months Remaining on the Contract | 24 |
| Total Contract Savings (\$25,005 X 24 months) | \$600,120 |

When a paper claims folder exists, a DDS or SSA component can instruct Lockheed (via the barcode) to forward the paper document to it for inclusion in the paper claims folder. About 37 percent of all documents Lockheed forwarded was because of DDS’ and SSA components’ forwarding instructions. However, during our audit period, all DDSs and all but two SSA components serviced by Lockheed had obtained SSA’s approval to work in an electronic claims environment. As such, the DDSs and SSA components no longer construct paper claims folders—although, for some older claims, a paper folder may still be involved.

SSA's project manager also expressed concern with the significant number of documents being forwarded per the barcode instructions. As a result, Operations asked DDSs with an unusually high number of forwarded documents to determine whether their barcode instructions were correct. At the time of our audit, one DDS had reported that its barcode incorrectly included forwarding instructions. The DDS took action to remove the forwarding instructions from the barcode. We also found one DDS that was simply printing the document from the electronic file and placing it in the paper folder. This practice would eliminate the need for Lockheed to forward documents.

We commend SSA for working with DDSs to identify documents that are unnecessarily forwarded. To further reduce the cost of forwarding documents, we recommend that SSA (1) ensure all DDSs and SSA components review the appropriateness of the forwarding instructions in their barcode and (2) consider having DDSs and SSA components print the evidence from the electronic file—in lieu of Lockheed forwarding paper documents.

CONCLUSION AND RECOMMENDATIONS

In general, Lockheed complied with the contract and accurately billed SSA for the services it provided. However, SSA could reduce costs incurred under the contract by reducing the number of paper documents Lockheed is required to forward to DDSs and SSA components. Specifically, SSA could save as much as \$67,311 a month in shipping and related costs by reducing the number of already imaged paper documents that are unnecessarily being forwarded. Over the remaining 2 years of the contract, SSA could save about \$1.6 million in shipping and related costs. Accordingly, we recommend that SSA:

1. Determine whether the requirement to forward all paper documents with a missing or damaged barcode to the responsible SSA component should be eliminated.
2. Ensure State DDSs and SSA components review the appropriateness of the forwarding instructions in their SSA-generated barcode.
3. Consider having DDSs and SSA components print the document from the electronic file, in lieu of Lockheed forwarding paper documents, when a paper claims folder is involved.

AGENCY COMMENTS AND OIG RESPONSE

SSA agreed with our recommendations. The Agency's comments are included in Appendix D.



Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Sampling Methodology

APPENDIX D – Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

| | |
|------------|---|
| BPA | Blanket Purchase Agreement |
| DDS | Disability Determination Services |
| eDIB | Electronic Disability |
| Lockheed | Lockheed Martin Government Services, Inc. |
| OIG | Office of the Inspector General |
| Operations | Office of Operations |
| SSA | Social Security Administration |

Scope and Methodology

In August 2005, the Social Security Administration (SSA) entered into a 5-year Blanket Purchase Agreement (BPA) with Lockheed Martin Government Services, Inc. (Lockheed), for scanning services to convert paper medical and non-medical documentation into digital images as well as related services. The related services include securely transmitting the images to SSA and protecting the confidentiality of SSA's paper documents and electronic images. The cost of the scanning service over the 5-year period is estimated at about \$124 million. Lockheed began providing services under the BPA in November 2005. Our audit covered the period November 2005 through December 2007.

To accomplish our objectives, we:

- Reviewed the contract and the contract modifications that applied during our review period.
- Reviewed pertinent sections of SSA's policies and procedures, handbooks, and relevant Federal laws and regulations.
- Interviewed SSA and Lockheed personnel associated with the BPA.
- Reviewed Lockheed's invoices and supporting documentation.
- Observed the contractor's operations at each of the three scanning facilities, which included the receipt, preparation, and scanning of documents. We also observed the controls for the storage and destruction of documents containing personally identifiable information.
- Observed the physical security at each of the three scanning facilities.

For each invoice, we:

- Verified the type of services billed to the contract and contract modifications.
- Verified the unit price charged to the contract and contract modifications.
- Verified the quantities billed to production reports.

- Determined whether Lockheed submitted the invoice timely.
- Determined whether SSA's payments were accurate and timely.

To assess the quality of the digital images and the accuracy of billing records, we performed tests at each of the three scanning facilities. At each site, we randomly selected 50 boxes of paper documents that were stored at the facility during the 15-day retention period. We tested 1 document (all documents included multiple pages) from each box, for a total of 150 documents. For each paper document, we determined whether (1) all pages in the document had a corresponding digital image, (2) the digital images were legible, and (3) the number of pages electronically recorded for the imaged document agreed with the number of pages in the paper document. We did not test the contractor's proprietary software used to generate production reports. However, we determined the data used for this audit were sufficiently reliable to meet our audit objectives.

The entities audited were Lockheed; the Offices of Acquisition and Grants and Financial Policy and Operations within the Office of Budget, Finance, and Management; and the Office of Disability Systems. Our tests of internal controls were limited to gaining an understanding of laws, regulations and policies that govern the Federal contracting procedures necessary to address our audit objectives. We conducted the audit between November 2007 and August 2008 in Atlanta, Georgia; London, Kentucky; Draper, Utah; and Mt. Vernon, Illinois. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Sampling Methodology

At each of the 3 scanning facilities, we randomly selected 50 boxes of paper documents that had been scanned and were being stored at the facility during the required 15-day document retention period. From each box, we selected one document for testing. As such, we tested 50 documents from each facility for a total of 150 documents. For each paper document, we performed tests to determine whether (1) all pages in the document had a corresponding digital image, (2) the digital images were legible, and (3) the number of pages electronically recorded for the imaged document in Lockheed's system agreed with the number of pages in the paper document. We found no errors in our test sample.

| Scanning Facility | Document Retention Period | Population of Storage Boxes | Document Selection Criteria | Total Pages Reviewed |
|--------------------------|--|------------------------------------|------------------------------------|-----------------------------|
| London, Kentucky | November 9, 2007 through November 27, 2007 | 1,327 | First Document in the Box | 2,654 |
| Draper, Utah | December 31, 2007 through January 14, 2008 | 359 | Fifth Document in the Box | 1,022 |
| Mt. Vernon, Illinois | December 31, 2007 through January 16, 2008 | 573 | Last Document in the Box | 2,027 |
| Total | | | | 5,703 |

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: November 3, 2008 **Refer To:** S1J-3

To: Patrick P. O'Carroll, Jr.
Inspector General

From: David V. Foster – DVF /s/
Executive Counselor to the Commissioner

Subject: Office of the Inspector General (OIG) Draft Report, “Contract with Lockheed Martin Government Services, Inc., for Digital Imaging Services” (A-04-08-18066)—INFORMATION

We appreciate OIG’s efforts in conducting this review. Attached is our response to the recommendations.

Please let me know if we can be of further assistance. Please direct staff inquiries to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT “CONTRACT WITH LOCKHEED MARTIN GOVERNMENT SERVICES, INC., FOR DIGITAL IMAGING SERVICES” (A-04-08-18066)

Thank you for the opportunity to review and provide comments on this draft report.

Recommendation 1

Determine whether the requirement to forward all paper documents with a missing or damaged barcode to the responsible Social Security Administration (SSA) component should be eliminated.

Comment

We agree. As the report states, we are currently evaluating this recommendation. We will propose a national pilot that will have Lockheed Martin (LMGS) scan and transmit images of documents with damaged or missing barcodes to the responsible State disability determination services (DDS) or SSA component as they currently do. Lockheed will then store these documents (as they currently do with all imaged documents) for future reference. DDSs and SSA components will receive that image and index it to the claimant's electronic claim folder.

Recommendation 2

Ensure State DDSs and SSA components review the appropriateness of the forwarding instructions in their SSA-generated barcode.

Comment

We agree. We are working with the DDSs to ensure the barcodes we generate for electronic cases are correct so LMGS will not have to forward paper documents to the DDSs.

Recommendation 3

Consider having DDSs and SSA components print the document from the electronic file, in lieu of LMGS forwarding paper documents, when a paper claims folder is involved.

Comment

We agree and will continue to evaluate this recommendation. While this recommendation would reduce shipping costs from the contract scanner, it would increase needed resources in the DDSs and SSA components in order to print and associate the documents with the paper folder. With each SSA and DDS legacy system's enhancement release, the number of paper cases decrease. Naturally, as the number of paper cases decrease, the number of documents that must be shipped from the contract scanner decreases. Because of these scenarios we will evaluate this recommendation more closely before any final decisions are made.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kimberly Byrd, Director, Southern Audit Division, (205) 801-1650

Frank Nagy, Audit Manager, Atlanta Office of Audit, (404) 562-5552

Acknowledgments

In addition to those named above:

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