OIG Office *of the* Inspector General

SOCIAL SECURITY ADMINISTRATION

Audit Report

The Social Security Administration's Contract with Four, LLC

A-04-13-13046 | August 2013

OIG Office *of the* Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: August 27, 2013   **Refer To:**

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Contract with Four, LLC (A-04-13-13046)

The attached final report presents the results of our audit. Our objectives were to (1) ensure the Social Security Administration (SSA) received the goods and/or services for which it contracted with Four, LLC and (2) review the services provided by Four, LLC and the related costs charged to SSA for adherence to the negotiated contract terms and applicable regulations.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

Patrick P. O'Carroll, Jr.

Attachment

The Social Security Administration's Contract with Four, LLC
A-04-13-13046

SOCIAL SECURITY
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Objectives

To (1) ensure the Social Security Administration (SSA) received the goods and/or services for which it contracted with Four, LLC and (2) review the services provided by Four, LLC and the related costs charged to SSA for adherence to the negotiated contract terms and applicable regulations.

Background

In December 2011, SSA entered into contract number GS-35F-0312U with Four, LLC an authorized International Business Machines (IBM) software reseller under the IBM Software Value Plus for Government Programs. Under the agreement, Four, LLC provides IBM-licensed software and IBM maintenance support and software for the Agency's mainframe computers and distributed computer system.

This is a 3-year fixed-price contract with 1 base year and two, 1-year option periods. The contract period is December 31, 2011 through December 30, 2014. The total contract cost is approximately $168 million— approximately $56 million per year. The contract has two parts based on the type of software SSA uses.

Our Findings

The software licenses, maintenance, and support services Four, LLC provided and costs it charged SSA adhered to the contract terms. Specifically, Four, LLC provided SSA (1) the IBM monthly license charge software the Agency needed to operate its mainframe computers and process workloads and (2) access to IBM's software maintenance and support program for the Agency-owned IBM software. Further, the unit prices charged to SSA agreed with the contract prices, and the quantity of services billed was accurate. Four, LLC submitted invoices at the beginning of the contract's base year, and SSA made timely and accurate payments. Finally, we determined SSA personnel properly monitored the contract.

Our Conclusions

The quantity and amounts paid for software use, maintenance, and support were in accordance with negotiated prices, and SSA received the services for which it paid. The costs for products and services were allowable, accurate, properly approved, and paid timely. Additionally, SSA personnel properly monitored the contract. Accordingly, we did not make any recommendations in this report.

TABLE OF CONTENTS

ABBREVIATIONS

DCS	Distributed Computer System
GSA	General Services Administration
IBM	International Business Machines
IT	Information Technology
MLC	Monthly License Charge
MSU	Millions of Service Units
OIG	Office of the Inspector General
OTC	One-Time Charge
SCRT	Sub-Capacity Reporting Tool
SSA	Social Security Administration

OBJECTIVES

Our objectives were to (1) ensure the Social Security Administration (SSA) received the goods and/or services for which it contracted with Four, LLC and (2) review the services provided by Four, LLC and the related costs charged to SSA for adherence to the negotiated contract terms and applicable regulations.

BACKGROUND

In December 2011, SSA entered into contract number GS-35F-0312U with Four, LLC. Four, LLC is an authorized International Business Machines (IBM)[1] software reseller under the IBM Software Value Plus for Government Programs. Under the agreement, Four, LLC provides IBM-licensed software and IBM maintenance support and software for SSA's mainframe computers and distributed computer system (DCS).[2] This is a 3-year, fixed-price contract with 1 base year and two, 1-year option periods. The contract period is from December 31, 2011 through December 30, 2014. The total contract costs are approximately $168 million— approximately $56 million per year. For the base year, SSA paid the contract's entire annual amount at the beginning of the year. The contract has two parts based on the type of software SSA uses.

- Monthly License Charge (MLC): Software use licenses for specific IBM software needed to operate and process information on SSA's mainframe computers. SSA does not own the software. Rather, SSA pays an annual fee for these software licenses. The unit prices for the software are set forth in General Services Administration (GSA) IT Contract Schedule GS-35F-4984H.[3] The contracted annual cost is about $26.1 million.

- Software Maintenance and Support: IBM provides SSA uninterrupted access to technical support and product upgrades for the IBM software the Agency owns. SSA pays an annual fee for these services. The unit prices for these services are also set forth in the GSA IT Contract described above. The contracted annual costs are about $29.9 million.

Four, LLC and IBM are authorized to work together through a GSA Teaming Agreement that allows two or more GSA contractors to work together to meet the Government's requirements.

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[1] IBM provides information technology (IT) products and services worldwide and has provided computer hardware and software for SSA's operations since 1936.

[2] A DCS consists of multiple software components that are on multiple computers but run as a single system. The computers in a DCS may be physically close together and connected by a local network or they can be geographically distant and connected by a wide area network. A DCS may consist of any number of possible configurations, such as mainframes, personal computers, workstations, and minicomputers.

[3] GSA Contract Schedules are one of the most widely used Government contract vehicles. Generally, this is a 5-year agreement under which GSA publishes a product price schedule detailing what it will pay a vendor for a specific product or service. The GSA Contract Schedules are typically indefinite delivery and quantity contracts that are available to Federal agencies worldwide.

Because Four, LLC has a GSA Teaming Agreement with IBM, SSA is authorized to work directly with IBM.

SSA owns and uses eight IBM mainframe computers: four at its National Computer Center in Baltimore, Maryland, and four at its Second Support Center in Raleigh, North Carolina. SSA's computer centers perform an integral role in supporting the Agency's administration of Title II, Title XVI, and other legislatively mandated programs. SSA uses IBM's proprietary software to operate the mainframe computers and process its workloads.

The Office of Telecommunication and Systems Operations is responsible for the total telecommunications and computer processing solution for SSA. This requires state-of-the-art software to support IT services. The acquisition and maintenance of this software is required for the continuing operation of SSA's nation-wide IT systems that provides the platform for

- online applications communicated between remote field users,

- batch programs on the mainframe systems,

- print processes,

- data exchange,

- integrated network management,

- capacity planning and performance measurement of network resources, and

- automation and remote control of the network components.

RESULTS OF REVIEW

The software licenses, maintenance, and support services Four, LLC provided and costs it charged SSA adhered to the contract terms. Specifically, Four, LLC provided SSA with (1) the IBM MLC software the Agency needed to operate its mainframe computers and process workloads on these computers and (2) access to IBM's software maintenance and support for the Agency-owned IBM software. Further, the unit prices Four, LLC charged to SSA agreed with the contract prices, and the quantity of services billed was accurate. Four, LLC submitted invoices at the beginning of the contract's base year, and SSA made timely and accurate payments. Finally, we determined SSA personnel properly monitored the contract.

Monthly License Charge Software

For the contract's base year (Calendar Year 2012), SSA paid the correct costs to Four, LLC for the millions of service units (MSU)[4] of the MLC software used. The contract estimated SSA's total MLCs at about $26.1 million for the base year. However, during this period, SSA's actual

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[4] An MSU is a measurement of the amount of processing work a computer can perform in 1 hour. The term is most commonly associated with IBM mainframe computers.

MLCs were about $26.4 million. Because the actual cost exceeded the estimated cost, and, in accordance with the contract,[5] SSA paid Four, LLC $243,039 for the excess MLCs. We concluded that SSA's estimation of the base year MLCs was accurate, given the additional MLCs due at the end of the base year were less than 1 percent of the contracted cost. See Appendix B for the total MLC software, by software product, for the contract's base year.

The contract established fixed prices for the MSU costs used to derive the MLCs. However, SSA expects the actual amount of service units used to vary throughout the contract year, causing its actual MLCs to be greater or less than the contract amount. According to the contract, if SSA's annual MLCs are less than the contract amount, the Agency is not due a refund. However, if SSA's annual MLCs exceed the contract amount, SSA must pay Four, LLC for the excess costs. To avoid paying for unused MLCs, SSA attempts to underestimate its annual MLCs when negotiating the contract. Knowing it may have excess MLCs payable at the end of a contract year, SSA sets aside funds to pay for any excess costs. SSA negotiated the annual MLCs based on its historical use and cost data. During the base year, SSA used almost 950,000 MSUs of licensed software.

SSA has several procedures to monitor the MLC software costs. We believe these procedures enabled SSA staff to properly monitor the MLC software costs. SSA uses IBM's Sub-Capacity Reporting Tool (SCRT) software to quantify the number of MSUs for each of the IBM-licensed software products used on each of the mainframe computers. SSA prices the MSUs and determines the MLCs with its own software applications. Additionally, SSA has a contract[6] with an outside consultant who verifies the accuracy of the SCRT results. Each month, SSA reports its MLCs to Four, LLC, which must confirm their accuracy with SSA. Generally Four, LLC agrees with SSA's MLCs. When variances occur, they work together to reconcile the differences.

Software Maintenance and Support

In the contract's base year, SSA paid Four, LLC the correct amount for IBM's maintenance and support of the Agency-owned IBM software, which SSA uses to process workloads on its mainframe computers and DCS. This maintenance and support service is for IBM's Passport Advantage service program (distributed software) and one-time charge (OTC) mainframe software. SSA paid about $29.9 million for this service. The annual fee provides SSA with access to IBM technical support and software version upgrades at no charge.

Passport Advantage is IBM's service program to manage the maintenance and support for specific IBM-licensed software whose ownership has transferred to the purchaser—SSA. Table 1 details the number of software programs used, number of licenses, and total cost of the

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[5] IBM, *Federal Enterprise Software and Services Option,* Section 5 – Eligible Use of Programs, included as part of the contract (GS-35F-0312U).

[6] SSA obtained the consultant's services via *Solicitation/Contract/Order for Commercial Item,* Requisition Number 3318-11-0982, and Order Number SS00-11-50094.

maintenance and support for SSA's IBM-owned software managed under the Passport Advantage service program.

Table 1: Software Managed Under the Passport Advantage Service Program—Base Year

Number of Unique Types of Software	Number of Software Licenses	Value of Software Licenses	Total Cost of Maintenance and Support	Percent of Maintenance and Support to Value of Licenses
101	300,318	$89,496,899	$17,777,787	19.9

OTC software is SSA-owned, non-operating system software that resides on the mainframe computers and is used by SSA to process various workloads. SSA does not pay MLCs for this software. Rather, SSA purchases the software maintenance and support annually. Table 2 details the number of different types of software used, number of licenses, and total cost of the maintenance and support for SSA's IBM-owned OTC software.

Table 2: OTC Software—Mainframe Computers—Base Year

Number of Unique Types of Software	Number of Software Licenses	Value of Licenses	Total Cost of Maintenance and Support	Percent of Maintenance and Support to Value of Licenses
21	34,640	$72,566,869	$12,093,776	16.7

SSA bases the number of licenses it owns for a particular software product on the mainframe computer's processing speed and the number of processes the mainframe makes using the software. The number of licenses owned and subject to the maintenance and support fees was determined as part of the contract negotiations, based on both IBM and SSA's records.

SSA has procedures for monitoring software problems. Specifically, SSA's IT staff who encounter software problems report them to the Agency's Help Desk. IT staff logs Help Desk requests into SSA's automated Change, Asset, and Problem Reporting System, which enables SSA to monitor software problems from the help request through resolution. SSA's IT staff, which works to ensure software operates as needed, has a critical role in resolving software problems. IT staff experiencing problems with software covered under IBM's Passport Advantage service program must also request technical assistance through IBM's online customer support service designed for this program. Staff may then work directly with IBM technical support staff to resolve problems. For OTC mainframe software problems, SSA staff contact specific IBM or Four, LLC software specialists for technical assistance.

IBM informs SSA of all software upgrades available under the maintenance and support agreement. SSA's staff is responsible for ensuring the upgrade is completed and the software is operating as needed. Depending on the software, staff can complete some upgrades in less than 1 day. Whereas complex upgrades may require significant SSA resources and must be planned months in advance. For example, an upgrade to major mainframe operating or data processing software requires the expertise and efforts of many SSA staff members. SSA staff works with IBM or Four, LLC software specialists to plan and complete the installation of the software upgrade. SSA staff, along with IBM or Four, LLC staff then tests the upgrade to ensure the software is operating properly.

CONCLUSIONS

The quantity and amounts paid for software usage and software maintenance and support were in accordance with negotiated prices, and SSA received the services for which it paid. The costs for products and services were allowable, accurate, properly approved, and paid timely. Additionally, SSA personnel properly monitored the contract. Accordingly, we did not make any recommendations in this report.

AGENCY COMMENTS

SSA reviewed the draft report but did not provide any comments (see Appendix C).

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed the contract costs for the base year—
December 31, 2011 through December 30, 2012. The total costs of the base year were
approximately $56 million, which consisted of about $26.1 million for monthly license charges
and $29.9 million for software maintenance and support. We reviewed 100 percent of the
monthly license charges and 100 percent of the software support and maintenance charges.

We also:

- Reviewed the contract between the Social Security Administration (SSA) and Four, LLC—
  contract number GS-35F-0312U.

- Reviewed the applicable sections of the Federal Acquisition Regulation.

- Reviewed the Systems Procurement Request for Maintenance and Support Services for
  International Business Machines (IBM) proprietary software.

- Interviewed the Contracting Officer's Technical Representative.

- Obtained a list of invoices paid under this contract. We reviewed these invoices to ensure
  SSA (1) paid amounts approved in the contract, (2) properly approved invoices before
  payment, (3) paid invoices timely in accordance with the terms of the contract, and
  (4) correctly recorded invoice amounts.

- Verified contract unit prices to the applicable General Services Administration's Contract
  Price Schedule.

- Reviewed SSA's Monthly License Charge reports.

- Verified the number of IBM licenses owned to IBM's records and SSA's records.

We conducted our audit between August 2012 and May 2013 in Atlanta, Georgia. We
determined the data used for this audit were sufficiently reliable to meet our audit objectives.
The principal entity audited was the Office of Telecommunication and Systems Operations under
the Office of the Deputy Commissioner for Systems. We conducted this performance audit in
accordance with generally accepted government auditing standards. Those standards require that
we plan and conduct the audit to obtain sufficient, appropriate evidence to provide a reasonable
basis for our findings and conclusions based on our audit objectives.

Appendix B – MONTHLY LICENSE CHARGE SOFTWARE COSTS

Total Monthly License Charges by Software Product—Base Year

	Software Name	Cost
Operating System Software		
1	z/OS V1 Base	$4,848,669
2	z/OS V1 DFSMS dsshsm	476,986
3	z/OS V1 JES3	412,025
4	z/OS V1 RMF	272,552
	Subtotal	$6,010,232
Database Software		
1	DB2 V10 for z/OS	$6,531,760
2	DB2 V9 for z/OS (no longer in use)	259,843
3	QMF Classic Edition	2,160,991
	Subtotal	$8,952,594
Network Support Software		
1	CICS Transaction Server for z/OS	$6,207,095
2	WS MQ Base for z/OS	2,621,097
3	Tivoli NetView for z/OS	1,813,149
4	WS MQ Client Attachment	277,305
	Subtotal	$10,918,646
Computer Language Software		
1	COBOL 4	$151,419
2	COBOL Alternate Function	95,480
	Subtotal	$246,899
Other Software		
1	Monthly Flat Fee Software	$289,264
	Total	**$26,417,635**

Appendix C – AGENCY COMMENTS

August 16, 2013

Subject: Audit No. 22012077 (A-04-13-13046) - OIG Draft Report, "The Social Security Administration's Contract with Four, LLC"

Steve,

Thank you for the opportunity to review the Office of the Inspector General draft report, *The Social Security Administration's Contract with Four, LLC*. We agree with the report as written and offer no comments.

Please let me know if you have any questions.

Tina

Tina M. Waddell
Assistant Deputy Commissioner
  for Budget, Finance and Management

Appendix D – MAJOR CONTRIBUTORS

Theresa Roberts, Acting Director, Atlanta Audit Division

Frank Nagy, Audit Manager

Lisa Swanson, Senior Auditor

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