
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**THE SOCIAL SECURITY ADMINISTRATION'S
ENTERPRISE-WIDE NETWORK
INFRASTRUCTURE CONTRACT**

September 2008

A-14-08-18014

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: September 2, 2008

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Enterprise-Wide Network Infrastructure Contract (A-14-08-18014)

OBJECTIVE

The objectives of our review were to determine whether Northrop Grumman Computing Services, Inc. (Northrop Grumman) adhered to the terms of the contract¹ and whether Social Security Administration (SSA) personnel properly monitored the contract. Specifically, we reviewed the Agency's administrative controls and oversight of the Northrop Grumman contract. We did not independently: test the acquired software; evaluate the equipment maintenance service provided; or test the functionality of the equipment acquired.

BACKGROUND

On September 28, 2005, SSA entered into a contract² with Northrop Grumman to address hardware, software, maintenance and technical support (see Appendix C for definitions of key contract terminology) of the Agency's Enterprise-Wide Network. The contract has an estimated value of \$153.2 million for 60 months from September 28, 2005 through September 27, 2010. The network, known as the Social Security Administration's Enterprise-Wide Network Infrastructure (SSANet),³ has thousands of daily users. For example, SSA's 62,000 employees use Internet and

¹ SSA Contract Number SS00-05-40020.

² SSA Contract Number SS00-05-40020 obtained through General Services Administration (GSA) Schedule Contract numbers, GS-35F-4389G and GS-35F-0279J.

³ The SSANet infrastructure is comprised of 1,300 SSA and State disability determination services sites that are located in all 50 States, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. SSANet also provides connectivity to external business partners including various State entities, other Federal agencies, contractors and the public.

Intranet resources in over 1,300 offices nationwide to communicate and process SSA workloads, such as retirement and disability claims. As of July 2007, SSA had paid, and we reviewed, \$27.3 million⁴ of the estimated \$153.2 million.

Under SSA policy⁵ and Federal contracting regulations,⁶ SSA is required to monitor the contract to ensure the terms are met. This includes both monitoring contractor technical performance and contractor adherence to contract terms.

RESULTS OF REVIEW

In general, SSA properly monitored the contract and ensured Northrop Grumman adhered to the contract terms. However, some aspects of the contract oversight warrant more attention by the Agency.

For example, SSA appropriately ensured that:

- Invoices were certified as correct before payment and were paid in accordance with the *Prompt Payment Act*.⁷
- Certifications were made that goods and services were received before payment.
- Invoices, individually or in total, did not exceed allowed amounts.
- Equipment unit prices and hourly rates billed on contractor invoices adhered to contract terms.
- The contractor was timely in delivering commercial products and engineering services ordered.

However, the following issues need further attention by SSA:

- Equipment was not tagged and accounted for in an inventory system.
- Equipment disposal was not done in accordance with Federal regulations and SSA policy.
- Suitability testing was not performed for all subcontractor personnel who worked under this contract.

⁴ As of July 31, 2007 SSA had paid 82 contractor invoices that contained the following items of expense: Personnel Service \$3.4 million; Equipment \$12.2 million; Software \$150,000; and Equipment Maintenance \$11.7 million.

⁵ Social Security Acquisitions Handbook, Subpart H2342.70, Contract Monitoring.

⁶ Federal Acquisition Regulation (FAR) § 42.201(a) (1) and (2), 48 C.F.R. § 42.201(a) (1) and (2).

⁷ The *Prompt Payment Act of 1982*, Pub. L. 97-177, as amended, 31 U.S.C. § 3901 et seq.

EQUIPMENT WAS NOT TAGGED AND ACCOUNTED FOR IN AN INVENTORY SYSTEM

According to SSA policy,⁸ some network equipment purchased under this contract should have been tagged⁹ with a bar code and accounted for in an inventory system.¹⁰ However, SSA did not tag or account for the network equipment provided under this contract. As of July 31, 2007, more than \$12 million in equipment was purchased under this contract. This included more than 1,400 computer switches¹¹ that had a median unit price of about \$2,756. According to SSA policy, because the unit price of these switches met SSA's definition of 'accountable property,' they should have been tagged and accounted for in an inventory system. SSA indicated that all equipment was not received centrally before distribution and it was, therefore, not possible to tag and record this equipment in an inventory system. Regardless of the dollar threshold set, noncompliance with Agency policy lessens the effectiveness of management controls in this area because all equipment is not being appropriately tagged and accounted for.

EQUIPMENT DISPOSAL WAS NOT DONE IN ACCORDANCE WITH FEDERAL REGULATIONS AND SSA POLICY

SSA did not properly monitor and report the disposal¹² of telecommunication equipment (switches and routers) purchased under this contract to ensure compliance with Federal regulations and SSA internal policy. The contract¹³ indicates that when SSA determines Information Technology equipment will be replaced, the Agency must follow the policies and procedures on exchange/sale contained in the Federal Property

⁸ Administration Instruction Manual System (AIMS), Property Management Chapter, Material Resources Manual (MRM) § 04.01.03 defines 'accountable property' as "The end item of personal property with an aggregate acquisition value of \$1,000 to \$99,999 including property owned, leased or otherwise under Government control."

⁹ According to SSA Office of Publications and Logistics Management, all accountable property is to be tagged with a bar code. The list of items that are to be bar coded includes a category titled 'Information Technology Equipment,' such as switches and routers.

¹⁰ AIMS, MRM § 04.01.03, supra, states, in part, that "All personal property within the accountable dollar threshold must be recorded in a system to be maintained by the Property Accountable Officer."

¹¹ A switch is a piece of hardware that is critical in supporting network connectivity within the SSANet infrastructure.

¹² AIMS, Property Management Chapter, MRM § 04.29.04 C provides, in part, that "SSA has the option of disposal by donation or sales action. The option of least expense to the trust funds should be chosen."

¹³ GSA Schedule Contract Number GS-35F-4506G, Section VI-Terms and Conditions Applicable to Purchase of General Purpose Commercial Information Technology Equipment, paragraph 9-Trade-In of Information Technology Equipment.

Management Regulations.¹⁴ Federal regulations¹⁵ require that SSA provide a list to GSA of all telecommunication equipment disposed of by exchange/sale. Additionally, based on SSA policy,¹⁶ GSA is the disposal agency for the Government, and all requests for the disposal of this type of equipment should be sent through GSA for action.

According to SSA internal policy,¹⁷ an SSA property management officer should determine the value of the equipment and a technical expert should complete a utilization review before disposal. As of July 2007, SSA had received over \$250,000 in trade-in credits for the return of more than 1,400 switches and other equipment. SSA did not: involve GSA in conducting this activity; report this activity to GSA; conduct value assessments to ensure compliance with the contract; and complete utilization reviews of equipment before disposal. It was also noted that sections of SSA's internal policy on equipment disposal referred to GSA forms that were outdated.

More than 1,700 other SSA switches will no longer be supported as of November 3, 2009. We found that the company that supplies the switches to Northrop Grumman is the same company that determined the switches needed to be replaced and the trade-in value given for the items returned. SSA accepted the trade-in value without determining whether it was the best value to SSA. Federal regulations require that agencies determine whether an exchange or sale will provide the greater return to the Government.¹⁸ However, there was no assurance that SSA actually achieved the "greater return" or that trade-in was warranted because the items involved were not controlled and accounted for by SSA in an inventory system and virtually all of the activity surrounding the trade-in process was not controlled by SSA. In the future, SSA could use other methods to determine and document the best return on investment

¹⁴ The information on replacement of personal property pursuant to the exchange/sale authority previously contained in Federal Property Management Regulations part 101-46, 41 C.F.R. § 101-46, is now located in the Federal Management Regulation System (FMRS) part 39, 41 C.F.R. § 102-39. The contract also requires the Agency to follow contracting policies and procedures in the FAR and disposition regulations for information technology excess personal property when it determines such equipment will be replaced. FMRS, Subchapter B-Personal Property, Subpart A, Subsection 102-39.35, 41 C.F.R. § 102-39.35, states that ". . . [y]ou must determine whether an exchange or sale will provide the greater return for the Government. When estimating the return under each method, consider all related administrative and overhead costs."

¹⁵ FMRS, supra, § 102-39.75(a) states ". . . [y]ou must submit, within 90 calendar days after the close of each fiscal year, a summary report in a format of your choice on the exchange/sale transactions made under this part during the fiscal year (except for transactions involving books and periodicals in your libraries)." FMRS, supra, § 102-39.20 defines "exchange" as ". . . to replace personal property by trade or trade-in with the supplier of the replacement property." That same section also defines "exchange/sale" as ". . . to exchange or sell non-excess, non-surplus personal property and apply the exchange allowance or proceeds of sale in whole or in part payment for the acquisition of similar property."

¹⁶ AIMS, MRM § 04.29.06.

¹⁷ AIMS, MRM § 04.29.08(E) (1).

¹⁸ FMRS, supra, §102-39.35, 41 C.F.R. § 102-39.35.

approach for equipment disposal. For example, SSA could contact equipment resellers, eBay, Craig's list, and other equipment manufacturers to validate the trade-in credit amount.

SUITABILITY TESTING WAS NOT PERFORMED FOR ALL SUBCONTRACTOR PERSONNEL

Suitability testing for all subcontractors was not performed. Northrop Grumman used subcontractor personnel to install equipment at various SSA locations nationwide. None of the subcontractor employees involved in this activity had the appropriate suitability check performed, and no waivers were granted. Allowing contractor personnel, who have not undergone an appropriate suitability review, access to SSA facilities heightens SSA risk that sensitive systems and/or data could be disclosed or compromised.

The contract established procedures for obtaining suitability determinations for contractor personnel who will perform¹⁹ under the network contract. Northrop Grumman did not adhere to the contract terms when it used subcontractor personnel to perform the installation of equipment at various SSA locations nationwide. The Office of Acquisition and Grants formally notified Northrop Grumman of this contract breach and requested that the contractor comply.

While SSA did not ensure contractor compliance with the contract, it should be noted that subcontractor personnel were usually escorted or observed by SSA staff when allowed access to SSA sites and equipment.²⁰ We found one exception where a subcontractor employee may not have been continuously escorted or observed while performing an installation.²¹ These same issues were identified in other SSA reviews²² that we have performed and we are aware of the Agency's ongoing efforts to address this condition.

¹⁹ Performing under the contract is defined as either working onsite at an SSA facility (including visiting an SSA site for any reason) or having access to Agency programmatic or sensitive information.

²⁰ We were able to confirm that subcontractor personnel performed equipment installations at 32 of 35 SSA field office locations we contacted. Thirty-one of 32 sites responded that subcontractor personnel were either escorted or observed at all times during their visit. For additional details, see Appendix B-2, paragraph 3.

²¹ AIMS, MRM § 04.50.05.A.5 states, in part, that "Management is responsible for scheduling visits by vendors, contractors, delivery or maintenance personnel, etc. and must monitor visits as necessary. Management must be notified of all visitors (non-claimant) and request identification from all visitors prior to admitting them into the work area. All visitors are to be escorted by SSA personnel while in the facility/office."

²² Office of the Inspector General (OIG), *The Social Security Administration's Information Technology Maintenance and Local Area Relocation Contract*, (CIN: A-14-07-17022), May 21, 2007. OIG, *The Social Security Administration's Consulting Services Contract for the Time Allocation System* (A-14-08-18020), August 5, 2008.

CONCLUSION AND RECOMMENDATIONS

Although SSA exercised a degree of administrative oversight and accountability of this contract, there are some areas that warrant management's attention.

We recommend SSA:

1. Appropriately tag and account for all equipment covered by SSA's policy.
2. Comply with Federal requirements and existing internal policy regarding the tracking and disposal of equipment.
3. Update its policy to reflect current GSA forms used in the disposal of equipment.
4. Ensure all contractor personnel have obtained appropriate suitability determinations before working under a contract.

AGENCY COMMENTS

SSA agreed with all of our recommendations. See Appendix D for the full text of SSA's comments.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Key Contract Terminology Definitions

[APPENDIX D](#) – Agency Comments

[APPENDIX E](#) – OIG Contacts and Staff Acknowledgments

Acronyms

AIMS	Administrative Instructions Manual System
C.F.R.	Code of Federal Regulations
FAR	Federal Acquisition Regulation
FMRS	Federal Management Regulation System
GSA	General Services Administration
MRM	Material Resources Manual
Northrop Grumman	Northrop Grumman Computing Systems, Inc.
OIG	Office of the Inspector General
SSA	Social Security Administration
SSANet	SSA Enterprise-Wide Network

Scope and Methodology

We conducted our audit field work between June and December 2007 in Baltimore, Maryland. The principal entities audited were the Social Security Administration's (SSA) Offices of Acquisition and Grants and Telecommunications and Systems Operations.

We reviewed records and interviewed staff in SSA's Offices of the Deputy Commissioner for Budget, Finance and Management; Finance and Property Management; and Personnel, Center for Personnel Security and Project Management. We also contacted regional office staff regarding the work performed onsite by subcontractor personnel.

We conducted this performance audit 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To meet our objectives, we

- reviewed applicable Federal laws and regulations and applicable SSA policies and procedures;
- reviewed the SSA Enterprise-Wide Network Infrastructure contract, contract number SS00-05-40020;
- interviewed Agency staff;
- reviewed and observed Agency contract management processes;
- examined each call order as if it were a contract unto itself;
- tested hourly rates and unit prices for all 82 invoices submitted during the review period for compliance with contract requirements;
- selected and tested 7 of 41 invoices that contained personnel service cost for compliance with contract requirements;
- obtained, documented and examined other information relevant to our review; and
- selected 35 of 177 field office locations for inquiry where subcontractor installations were conducted during 2007.

Testing Methodology and Results

Of 82 contractor invoices paid during the audit period ended July 31, 2007, 41 contained personnel service costs. For testing, we selected a sample of 7 invoices, totaling \$559,017, of 41 invoices, totaling \$3,438,034. We reviewed one invoice, chosen at random, from each of the 7 quarters in the period of our review. Our objectives were to determine whether personnel service invoices were mathematically correct and contained support for the number of hours billed; the hourly rates used in calculating the invoice amounts adhered to the contract provisions; and that none of the invoices exceeded the call order award amounts. We found one exception where an invoice was under-billed for less than 30 minutes. This was not material to the contract.

We also examined all 82 invoices, totaling \$27,370,982, the contractor submitted during the review period of September 28, 2005 through July 31, 2007. Our objectives were to determine whether the submitted invoices were mathematically correct; unit prices adhered to contract provisions and were supported by General Services Administration Federal Supply Schedule or other relevant documentation; certified by the project officer prior to payment; certified prior to payment that services were rendered; did not exceed the individual call order award amounts; paid in accordance with the *Prompt Payment Act*, and the invoices submitted complied with contract provisions. We found minor exceptions for some unit price amounts, due to rounding, that were not material to the contract.

To confirm that subcontractor personnel actually installed equipment at SSA field office locations, we developed and used a questionnaire and contacted field office staff. We randomly selected 35 sites from a universe of 177 sites where installations were performed during the period January 1 through July 31, 2007. For each of the two subcontractors who performed the installations, we chose three installs for review for each month. For months with three or fewer installs, all installs were selected for review. We obtained responses from all 35 field office locations. We confirmed that the subcontractor personnel performed installations at 32 of the 35 field locations. Further, 31 of the 32 field offices responded that contractor personnel were either escorted or observed at all times during their visit. We were unable to confirm installations at 3 of the 35 field offices. SSA staff at one of the three sites could not recall the installation. Contact points involved with the installations at two of the three sites were unavailable because of retirement or death.

Key Contract Terminology Definitions

Equipment Maintenance	The performance of onsite replacement of failed hardware.
Hardware	Components that provide the foundation for the network.
Software	Components that enable hardware to function.
Switch	A device that channels incoming data toward their intended destination.
Technical Support Services	Individuals with knowledge and experience bases in technical areas. For example, network engineers; subject matter experts, software specialists, and project managers.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: August 20, 2008 **Refer To:** S1J-3

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

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

Subject: Office of the Inspector General (OIG) Draft Report, "The Social Security Administration's Enterprise-Wide Network Infrastructure Contract" (A-14-08-18014)--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. Staff inquiries may be directed to Candace Skurnik, Director, Audit Management and Liaison Staff, at (410) 965-4636.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “THE SOCIAL SECURITY ADMINISTRATION’S (SSA) ENTERPRISE-WIDE NETWORK INFRASTRUCTURE CONTRACT ” (A-14-08-18014)

Thank you for the opportunity to review and provide comments on this draft report. We concur with all four of the recommendations, and our responses to them are as follows:

Recommendation 1

Appropriately tag and account for all equipment covered by policy.

Comment

We agree. A three phase action plan is under development to tag and account for all Cisco equipment obtained under this contract using the Sunflower system. The first phase was put into place July 2, 2008. In this phase, all equipment being deployed by Northrop Grumman and SSA will be tagged prior to deployment. Phase 2 processes will address tagging of field replaced units, and Phase 3 will address all installed equipment.

Recommendation 2

Comply with Federal requirements and existing internal policy regarding the tracking and disposal of equipment.

Comment

We agree. We reviewed the Property Disposal Guide, and we are seeking additional guidance from OIG to comply with this recommendation. Currently, no trade-in actions are being pursued. However, in the recent past, trade-in actions have resulted in more than \$250,000 credit to us.

On July 30, 2008, we emphasized with staff the need for the contracting officers to make a determination whether the proposed trade-in prices offered by vendors are fair and reasonable. We provided the contracting officers with the best sources and methods we currently have to assist them in making this determination. For all information technology equipment contracts that involve trade-ins, the contracting officers will now include evidence of their determination in the contract file.

Recommendation 3

Update policy to reflect current GSA forms used in the disposal of equipment.

Comment

We agree. We are updating all of the property management related material in the Administration Instruction Manual System to reflect current GSA forms used in equipment disposal. We will complete a first draft by the end of August 2008.

Recommendation 4

Ensure all contractor personnel have obtained appropriate suitability determinations before working under a contract.

Comment

We agree. Processes are in place to ensure that all Northrop Grumman contractors have suitability determinations before working under the contract. The subcontractors performed physical switch installations at small and medium sized remote sites, and we halted this activity in March 2008 due to the suitability status of these subcontractors. To date, we have cleared approximately 30 subcontractors through the suitability process and have additional personnel clearance actions currently underway.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kitt Winter, Director, Information Technology Audit Division, (410) 965-9702

Mary Ellen Moyer, Acting Audit Manager, (410) 966-1026

Acknowledgments

In addition to those named above:

Harold Hunter, Senior Auditor

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