
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION



**THE SOCIAL SECURITY ADMINISTRATION'S
RECOVERY ACT-FUNDED CONTRACT WITH
INTERNATIONAL BUSINESS MACHINES, INC.,
BLANKET PURCHASE AGREEMENT SS00-08-40004,
CALL ORDER 51**

October 2011

A-15-11-11113

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: October 13, 2011

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Social Security Administration's Recovery Act-funded Contract with International Business Machines, Inc., Blanket Purchase Agreement SS00-08-40004, Call Order 51 (A-15-11-11113)

OBJECTIVE

Our objectives were to determine whether (1) the Social Security Administration (SSA) properly accounted for *American Recovery and Reinvestment Act of 2009* (Recovery Act) funds for the purchase of International Business Machines, Inc., (IBM) System i® hardware, software, and development tools; (2) the contractor complied with the contract terms and applicable regulations; and (3) SSA personnel properly monitored the contract.

BACKGROUND

On February 17, 2009, the President signed the \$787 billion Recovery Act into law.¹ The Recovery Act had three immediate goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster unprecedented levels of accountability and transparency in Government spending.²

In 2007, SSA awarded IBM Blanket Purchase Agreement (BPA) SS00-08-40004 to purchase IBM System i® hardware, operating system software, development software, and tools that are part of the disability determination service platform. In 2009, the Recovery Act granted SSA additional funding for this BPA to help address the increased disability and retirement workloads caused by a combination of the economic downturn and the baby boomer retirement wave. To address the increased workloads, SSA issued Call Order 51 on BPA SS00-08-40004 to increase the Agency's computer capacity. Call Order 51 contracted with IBM to deliver and install System i® hardware, software, development tools, and technical support. Call Order 51 totaled \$8,487,500.

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).

² http://www.recovery.gov/about/pages/the_act.aspx.

RESULTS OF REVIEW

Based on our review at 10 disability determination services (DDS) locations and SSA Headquarters, we found that (1) SSA properly accounted for Recovery Act funds for the purchase of IBM System i® hardware, software, and development tools; (2) the contractors complied with the contract terms and applicable regulations; and (3) SSA personnel properly monitored the contract. In addition, we also determined that 3.54 jobs were created in relation to this contract.

During our audit, we identified three minor issues that did not negate IBM's performance or SSA's oversight of the contract. The issues were as follows.

1. SSA did not expend all the obligated funds related to Call Order 51.
2. We identified minor errors in price listings of hardware and software SSA used in determining the amounts to pay IBM for its DDS systems expansion costs.
3. Some DDSs allowed IBM staff to enter their locations without identification.

SSA's Oversight of the Contract and IBM's Compliance

SSA maintained adequate oversight of the IBM contract. The Contracting Officer Technical Representative (COTR) monitored the delivery of hardware and software to the DDSs. DDS staff informed us that the upgraded systems worked as expected with increased capacity. For the 10 DDS sites visited, we reviewed equipment listings for all the sites to ascertain that the System i® equipment was received and accounted for. Furthermore, DDS staff stated the systems were upgraded timely.

Job Creation

The Recovery Act³ requires that Federal contractors calculate and report the number of jobs created using the total number of hours worked on contracts related to the Recovery Act.⁴ To determine IBM's total number of jobs created, we ascertained the number of jobs created as reported by IBM on www.FederalReporting.gov for the two quarters ended March and June 2010. In addition, we requested IBM's method of calculation and supporting documentation for jobs created for those quarters. The Office of Management and Budget's (OMB) guidance for calculating the "Number of Jobs" is based on converting full-time, part-time, or temporary jobs into fractional full-time equivalents (FTE).⁵ IBM reported a total of 3.40 jobs created for Call Order 51. We determined the number of jobs reported as created by IBM for the duration of Call

³ Pub. L. No. 111-5, Title XV, § 1512(c), 123 Stat. 286-288(2009).

⁴ http://www.whitehouse.gov/omb/recovery_faqs_contractors.

⁵ Id.

Order 51.⁶ Based on our calculations, we determined that there were 3.54 jobs created for Call Order 51.⁷ IBM reported the jobs created in a manner consistent with OMB guidance. See Table 1 for our calculation of IBM jobs created for Call Order 51.

Table 1 – Calculation of Jobs Created for Call Order 51

Hours	July - Sept. 2009	Oct. – Dec. 2009	Jan. - March 2010	April - June 2010	Total
Full Time Schedule	520	520	520	520	520
Hours Worked	119	948.85	710.95	59.8	1838.6
Quarterly FTE	0.23	1.82	1.37	0.12	3.54

Obligated Funds Not Expended

We determined that SSA did not expend \$28,958 of obligated funds. According to the COTR, SSA paid IBM for all the invoices issued for Call Order 51. Once the COTR confirms that SSA has received all the invoices, the remaining funds can be deobligated. See Table 2.

Table 2 - IBM Contract SS00-08-40004 Call Order 51

Call Order 51 Obligation Amount	\$ 8,487,500
Total Costs Paid	8,458,542
Unused Funding	\$ 28,958

Price Listing Errors

We identified errors in the price listing of hardware and software SSA used in determining the payment amounts to IBM for its DDS systems expansion costs. The General Services Administration (GSA) created the listing from an IBM product list.⁸

⁶ Call Order 51 commenced in September 2009 and was completed in April 2010. IBM's calculation of jobs created for quarters ended September and December 2009 were subject to an earlier Office of the Inspector General (OIG) review, *Contractors' Reporting of Jobs Created Using American Recovery and Reinvestment Act Dollars* (A-15-10-21096), July 2010. As part of that review, we determined that the proper number of jobs created for the quarters ended September and December 2009 was .23 and 1.82, respectively, compared to IBM's reported jobs created of 16.68 and 3.26. The disparity in the calculation of jobs created or retained was due to IBM using an algorithm to estimate jobs related to commercial-off-the-shelf (COTS) products it sold to SSA. IBM did not provide support for actual hours worked related to the COTS products as guidance required. IBM's algorithm equaled its total U.S. revenue for 2008 divided by its total number of U.S. employees for 2008, resulting in revenue per employee. The SSA *Recovery Act* invoiced contract amount was then divided by the calculated revenue per employee figure to determine the jobs retained for the COTS items.

⁷ Based on supporting documentation provided by IBM, we determined for the quarters ended March 2010 and June 2010, the number of jobs created were 1.37 and .12, respectively. For these quarters, IBM reported 1.25 and .10 to www.FederalReporting.gov. This minor variance of .14 for these two quarters is due to IBM's subsequent adjustments to time reports.

⁸ IBM contract GS-35F-4984 H GSA Hardware Purchase Price, also GS-35F-4984 H GSA Software Purchase Price.

We identified instances where improper costs were associated with the IBM product. See Appendix C. For example, a commercial price was used instead of the appropriate Federal price. We compared the GSA product listing to the DDS systems expansion costs listing and found IBM hardware and software amounts listed incorrectly. IBM either overcharged or undercharged SSA. We recalculated the price for all the hardware and software items related to Call Order 51. There were 1,078 items in total. Of the 1,078 items, IBM improperly charged SSA for 17. We determined IBM overcharged and undercharged SSA \$33,341 and \$24,158; respectively, for computer hardware and software. The net effect of these errors was a \$9,184 overcharge. See Appendix C.

DDS Allowed IBM Staff Informal Entry into Work Site

SSA personnel informed us that IBM staff was not required to show identification to enter the DDS. At the 10 DDS sites we visited, we interviewed DDS Information Technology staff and verified that IBM installed equipment. At three sites, the DDS staff stated that they did not always verify the IBM workers' identification because they were familiar with them. The DDS staff escorted the IBM staff to the DDS computer room and monitored their work. The admittance of unauthorized personnel increases the DDS's risk of improper access to its systems.

CONCLUSION AND RECOMMENDATIONS

Our audit determined that SSA properly accounted for the Recovery Act funds for Call Order 51 to purchase IBM System i® hardware, software, development tools, and technical support. We determined SSA maintained adequate oversight of Call Order 51, and IBM properly delivered System i® hardware and software to various DDS locations. Additionally, we determined there were 3.54 jobs created for this contract and IBM reported them in a manner consistent with OMB guidance. However, we determined (1) SSA did not expend all the obligated funds related to Call Order 51, (2) there were minor errors in the price listings SSA used to pay vendor invoices, and (3) there were instances where IBM staff entered DDS locations without identification.

We recommend SSA:

1. Verify that the Agency received all the IBM invoices and deobligate the \$28,958 in funds for the IBM contract that were not expended.
2. Request that IBM repay the Agency \$9,184 for the hardware and software overpayment on Call Order 51.
3. Encourage DDSs to continue to have personnel check the identification badges of contractors who enter DDS sites.

AGENCY COMMENTS

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

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – International Business Machines, Inc. Items Invoiced and Paid by the Social Security Administration That Were Over or Under the General Services Administration's Blanket Schedule Price/Contract Price

APPENDIX D – Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

BPA	Blanket Purchase Agreement
COTR	Contracting Officer Technical Representative
COTS	Commercial-off-the-Shelf
DDS	Disability Determination Services
FAR	Federal Acquisition Regulation
FTE	Full-Time Equivalent
GSA	General Services Administration
IBM	International Business Machines, Inc.
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
Recovery Act	<i>American Recovery and Reinvestment Act of 2009</i>
SSA	Social Security Administration

Scope and Methodology

To accomplish our objectives, we:

- We reviewed the International Business Machines, Inc. (IBM), Blanket Purchase Agreement SS00-08-40004, Call Order 51, which covers the period September 2009 through April 2010.
- Reviewed the applicable Federal Acquisition Regulation (FAR), as stated in the contract, the Social Security Administration’s (SSA) Acquisitions Regulations, SSA’s Administrative Instructions Manual System, and Code of Federal Regulations over Prompt Payment.
- Reviewed guidance, Office of Management and Budget Memorandum M-10-08, Updated Guidance on the *American Recovery and Reinvestment Act* – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates, and FAR 52.204-11 *American Recovery and Reinvestment Act* Reporting.
- Reviewed IBM’s methodology and supporting documentation used to calculate the number of jobs reported as created on www.FederalReporting.gov for the quarters ended March and June 2010. We then performed an independent calculation of jobs created, for the quarters ended March and June 2010, based on full-time equivalent positions (FTE) using Recovery Act hours worked divided by cumulative hours in a full-time schedule. An example of the calculation is as follows.

Hours	Jan - March 2010	April - June 2010
Full Time Schedule	520	520
IBM Recovery Act Hours Worked	710.95	59.8
Quarterly FTE	1.37	0.12

- Determined the number of jobs created for the life of Call Order 51.
- Reviewed the process related to contracts of the Offices of Acquisition and Grants and Disability Systems.
- Gained an understanding of the responsibilities of the Contracting Officer and Contracting Officer Technical Representative (COTR).
- Reviewed the suitability letters for all IBM contract employees and determined they were acceptable.

- Evaluated the COTR's and Contracting Officer's oversight of the IBM contract to ensure compliance, which included examining and approving IBM's invoices.
- Compared the General Services Administration's IBM product listing to SSA's disability determination services (DDS) systems expansion cost.
- Visited 10 State DDSs where IBM completed contract work under Call Order 51, interviewed DDS staff, and verified that all equipment installed by IBM was present.

We performed our audit at SSA Headquarters in Baltimore, Maryland, and 10 DDS locations: California, Florida, Georgia, Louisiana, Maryland, Missouri, North Carolina, New Jersey, Ohio, and Pennsylvania. We conducted our audit from January through May 2011. We found the data used for this audit were sufficiently reliable to meet our objectives. The entities audited were the Offices of the Deputy Commissioners for Budget, Finance and Management; Operations; and Systems.

We conducted this 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 objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

International Business Machines, Inc. Items Invoiced and Paid by the Social Security Administration That Were Over or Under the General Services Administration's Blanket Schedule Price/Contract Price

This schedule represents the equipment purchases by the Social Security Administration (SSA) from the General Services Administration where International Business Machines, Inc., (IBM) charged SSA incorrect amounts. The total amount of Call Order 51 is \$8,487,500. In some cases, IBM overcharged or undercharged SSA. The list below represents the 17 items that IBM incorrectly charged SSA of the 1,078 total items SSA received under Call Order 51 from September 2009 to April 2010. IBM improperly overcharged SSA a net amount of \$9,184.

DDS	Item Description	Total Overcharge	Total Undercharge
Pennsylvania	8204-E8A 4532	\$ 524.70	\$ -
Pennsylvania	8204-E8A 4966	\$ 3,702.60	\$ -
Pennsylvania	8204-E8A 4986	\$ 2,370.60	\$ -
California	9117 MMA 2443	\$ -	\$ (4.50)
California	9117 MMA 7700	\$ 2,765.70	\$ -
Ohio	8204-E8A 4966	\$ 3,702.60	\$ -
Ohio	8204-E8A 4986	\$ 3,555.90	\$ -
NCC*	9117-MMA 5617	\$ 2,268.00	\$ -
NCC	9117-MMA 5675	\$ 703.80	\$ -
NCC	9117-MMA 7540	\$ 2,937.60	\$ -
NCC	9917-MMA 7700	\$ -	\$ (23,674.50)
NCC	7014-T42 6654	\$ -	\$ (478.80)
Georgia	8204-E8A 4966	\$ 3,702.60	\$ -
Georgia	8204-E8A 4986	\$ 3,555.90	\$ -
Wisconsin	8203-E4A 5634	\$ 1,775.70	\$ -
Wisconsin	5722-SSC 1781	\$ -	\$ -
Missouri	8203-E4A 5634	\$ 1,775.70	\$ -
Totals		\$ 33,341.40	\$ (24,157.80)
Net SSA Was Overcharged		\$9,183.60	

*National Computer Center

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: September 16, 2011 **Refer To:** S1J-3

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

From: Dean S. Landis /s/
Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, "The Social Security Administration's *Recovery Act*-funded Contract with International Business Machines, Inc., Blanket Purchase Agreement SS00-08-40004, Call Order 51" (A-15-11-11113)--INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Frances Cord at (410) 966-5787.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT,
“THE SOCIAL SECURITY ADMINISTRATION’S RECOVERY ACT-FUNDED
CONTRACT WITH INTERNATIONAL BUSINESS MACHINES, INC., BLANKET
PURCHASE AGREEMENT SS00-08-40004, CALL ORDER 51”
(A-15-11-11113)**

Recommendation 1

Verify that the Agency received all the International Business Machines, Inc. (IBM) invoices and deobligated the \$28,958 in funds for the IBM contract that were not expended.

Response

We agree. We verified IBM does not intend to submit any additional invoices related to Call Order 51; therefore, we will deobligate \$28,958 from the Blanket Purchase Agreement.

Recommendation 2

Request IBM to repay the Agency \$9,184 for the hardware and software overpayment on Call Order 51.

Response

We agree. We will take the necessary action to recover the \$9,184 overpayment from IBM.

Recommendation 3

Encourage Disability Determination Services (DDS) to continue to have personnel check the identification badges of contractors who enter DDS sites.

Response

We agree. We continue to provide guidance to all the DDS through our Annual Security Reminders, and DDS Administrator and Center for Disability Programs monthly calls.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Victoria Vetter, Director, Financial Audit Division

Ronald Anderson, Acting Audit Manager

Acknowledgments

In addition to those named above:

Sigmund Wisowaty, Auditor-In-Charge

For additional copies of this report, please visit our Website at <http://oig.ssa.gov/> or contact the Office of the Inspector General's Public Affairs Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-15-11-11113.

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OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

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OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

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OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.