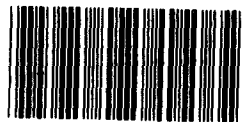


United States General Accounting Office

Washington, D.C. 20548



134363

FOR RELEASE ON DELIV

EXPECTED AT 9:30 A.M

NOVEMBER 5, 1987

STATEMENT OF

MILTON J. SOCOLAR

SPECIAL ASSISTANT TO THE COMPTROLLER GENERAL

UNITED STATES GENERAL ACCOUNTING OFFICE

BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

THE DEVELOPMENT AND AWARD OF THE SOCIAL SECURITY

ADMINISTRATION'S SYSTEMS ENGINEERING AND

INTEGRATION CONTRACT

4005

Mr. Chairman and Members of the Committee:

We are here today to discuss the findings from our continuing review of Social Security Administration (SSA) activities in the award and subsequent administration of Systems Engineering and Integration (SE&I) contract to modernize SSA computer operations. The SE&I contract was awarded in December of 1982 as part of SSA's System Modernization Plan (SMP).

In November, 1985, I testified before this subcommittee about several disturbing features surrounding the SE&I procurement. We had found that the winning team of contractors--Deloitte, Haskins and Sells (DH&S) and Electronic Data Systems (EDS)--enjoyed special advantages in the form of highly visible and free office space at SSA for 2 years preceding the award. Although DH&S had no contract with SSA during most of this period, DH&S personnel were allowed the opportunity to develop relationships with SSA staff and obtain detailed information about SSA's operations, organization and ADP modernization plans. We also reported that on a number of occasions, DH&S provided gratuities in the form of meals to SSA officials responsible for the selection and management of the SE&I contract.

After those hearings, at your request, we continued our investigation and found further evidence of SSA favoring DH&S. Specifically, we received testimony that:

--Prior to issuance of the request for SE&I proposals in July 1982, senior SSA officials, including the Commissioner and the source selection official, hosted a meeting at which DH&S representatives were allowed to make a presentation intended to persuade SSA to draft a statement of work favorable to DH&S. As far as we can tell, SSA did not afford this opportunity to any other vendor.

--During the course of the SE&I competition, after technical scoring and before best and final offers were received, Marshall Mandell, SSA's then Deputy Commissioner for Systems, improperly provided competitor bid amounts to James Dwight of DH&S as well as the relative standing of DH&S in the competition from a price and technical scoring standpoint.

We were able to document that SSA officials accepted gratuities in the form of restaurant meals from both DH&S and EDS during performance of the SE&I contract. Some of the EDS meals for SSA officials were charged directly to the SE&I contract. EDS also improperly charged a number of meals for its own employees and other unallowable expenses to the SE&I contract.

## BACKGROUND OF THE SYSTEMS ENGINEERING AND INTEGRATION

### PROCUREMENT

The SE&I procurement was designed to help SSA implement its Systems Modernization Plan. The plan, first published in February 1982, set out a number of goals focused on modernizing the ADP Systems at SSA. As noted in the plan, the undertaking called for a complex, highly technical, and extensive engineering and integration effort. SSA decided to obtain the requisite services from a nationally recognized SE&I contractor.

SSA issued a request for proposals on July 30, 1982, with initial proposals due in September. Technical evaluations were completed in early November and negotiations took place during the remainder of the month. Best and final offers were received on November 30 and again on December 2, 1982. The systems engineering and integration contract was awarded to EDS/DHS on December 8, 1982 and completed in March of this year. The total contract value was \$33 million with DHS as the major subcontractor receiving about 30 percent of the contract revenues.

### SUMMARY OF NOVEMBER 1985 HEARINGS

In November of 1985, we testified to the substantial presence of DH&S at SSA for a period of two years beginning

with the Reagan transition and continuing through award of the SE&I contract. During this 2-year period DHS used offices on the ninth floor of SSA's Altmeyer building and was involved in one manner or another with several SSA issues, including development of the System Modernization Plan. Our testimony suggested that by virtue of this presence Deloitte, Haskins and Sells was in a position to acquire an advantageous fund of knowledge about the agency's needs and to assert an influence on agency decisions. In this regard, by way of example, we testified that:

"an SSA official told us in a sworn statement that in the Spring of 1982, he and a colleague were summoned to the Commissioner's office. When they arrived, neither Commissioner Svahn nor any other SSA official was present. Instead, Mr. Dwight [a DH&S Partner] greeted them and proceeded to ask them detailed questions concerning the agency's automation problems, plans, and strategies. . . . Commissioner Svahn did not recall lending his office to Mr. Dwight. Mr. Dwight did not recall the meeting with the SSA officials."

Since we last testified, we have interviewed under oath Marshall Mandell, SSA's then Deputy Commissioner for Systems. As you recall, Mr. Chairman, Marshall Mandell was subpoenaed by this Subcommittee on November 7, 1985, to testify regarding the System Modernization Plan, the SE&I

contract and other SSA Systems Contracts. Mr. Mandell, because of his key role in the development of both the SMP and the SE&I RFP, had been invited to testify on November 6 but failed to appear.

Mr. Mandell, who had worked with Jack Svahn, then Commissioner of the Social Security Administration, at the Office of Child Support Enforcement during the mid 1970's, was brought into SSA by Mr. Svahn to head up a small team tasked with drafting the SMP. This team, made up of Mr. Mandell and two or three others, drafted the SMP during the Fall and Winter of 1981 and then later drafted the SE&I RFP during the Spring of 1982. Mr. Mandell had refused to cooperate with us during our investigation prior to the 1985 hearing. Since then he has agreed to cooperate, providing us further testimony concerning DH&S's unique status at SSA and how this may have affected the award of the SE&I contract.

#### SSA HOSTED A PRESENTATION BY DH&S

Mr. Mandell, then Associate Commissioner for Systems Integration, says he was told some time in June or July of 1982 by Nelson Sabatini, then Associate Commissioner for Management, Budget and Personnel, that the two of them were to travel to the Deloitte, Haskins and Sells offices in Washington, D.C. to meet with James Dwight, a DH&S partner,

about the proposed role for the SE&I contractor. At that time the SE&I request for proposals was being drafted under the supervision of Mr. Mandell and Mr. Sabatini was later to select the winner of the SE&I contract competition. The request for proposals was issued on July 30, 1982.

Allegedly, in accordance with Commissioner Jack Svahn's wishes, the meeting was not held at DH&S offices. Instead, according to Mr. Mandell, Mr. Dwight came to Mr. Svahn's office bringing with him one or two other DH&S officials.

Mr. Mandell says that Mr. Dwight proceeded to brief him and Mr. Sabatini on what DH&S believed the SE&I contractor role should be, emphasizing program management as opposed to systems engineering. According to Mr. Mandell, DH&S was better suited for program management than for systems engineering work. Also, according to Mr. Mandell, Mr. Svahn was in attendance although he did not actively participate. As far as we were able to determine, SSA did not afford this opportunity to any other vendor.

Mr. Dwight denies that this meeting took place; Mr. Svahn does not recall; and Mr. Sabatini, although recalling the meeting in Mr. Svahn's office, does not recall the details.

SSA IMPROPERLY PROVIDED SENSITIVE PROCUREMENT INFORMATION TO

DH&S

As I stated earlier, Marshall Mandell testified that during the procurement process, he advised DH&S as to its technical standing and provided DH&S the amounts of its competitors' bids. Mr. Mandell further testified that in November of 1982, after the proposals had been received and evaluated, Mr. Dwight of DH&S visited the 9th Floor of SSA's Altmeyer Building, specifically the office of James Jeffers, then Associate Commissioner for Governmental Affairs.

Mr. Jeffers testified that:

"Mr. Dwight came to my office, engaged in what would be characterized as small talk. . . . He indicated that he needed to check with Marshall, that it was inconvenient for him to do that in Marshall's office. And asked if they might use my office to have a meeting.

I indicated that . . . would be fine. And Mr. Dwight asked that I call Marshall to arrange the meeting because he did not feel that it would be appropriate for him to do so."

Mr. Jeffers later told us that Mr. Dwight was clearly trying to hide the fact that he was to meet with Mr. Mandell.



According to Mr. Mandell, Mr. Dwight had heard that EDS/DH&S was the high bidder and wanted to know the details. Mr. Mandell, who had no official role in the selection process and who should not have had access to evaluation data, told us that he did have the data and that he did pass it to Mr. Dwight. Again, according to Mr. Mandell, he told Mr. Dwight "the details of each bid and the amounts" and went on to tell Mr. Dwight that EDS/DH&S was "technically superior" but that its cost proposal was too high and would have to come down by \$1.5 to 2.5 million.

At that point in the competition EDS/DH&S was at \$8.7 million while competitor bids ranged from \$5 to \$6.5 million. The information Mr. Mandell stated he gave to Mr. Dwight suggested that in Mr. Mandell's opinion, EDS/DH&S could win with a bid as high as \$7.2 million.

Although he initially had no recollection of the meeting, Mr. Dwight now recalls that he did visit Mr. Mandell during that period and that they did discuss EDS/DH&S' relative technical score and the competitors bids.

Unlike Mr. Mandell, Mr. Dwight recalls telling Mr. Mandell that EDS/DH&S was already planning to reduce its bid significantly. Mr. Dwight recalls that Mr. Mandell indicated "that in his judgment the price reduction

contemplated by [EDS] should remove price as a barrier to consideration of the [EDS/DH&S] proposal."

Meanwhile, according to Ted Ryan, then EDS Vice President for Program Development in the federal sector, and David Jenkinson, who was responsible for managing the EDS cost proposal, EDS had determined by competitive analysis that its final bid should not exceed \$6 million. Since EDS and DH&S had previously established a specific ratio for splitting the contract, this meant that DH&S would have had to reduce its bid proportionately.

According to testimony from Mr. Jenkinson, Vito Petruzzelli, a Director at DH&S, and Richard Raupp, a partner at DH&S, resisted reducing the total bid below the \$7 million range citing inside information as their reason for believing EDS/DH&S could win with a bid at or near \$7 million. As it turned out, EDS apparently chose to rely on its own analysis and negotiated a final DH&S bid which, when added to the other subcontractor bids, made for a total EDS bid of \$6.3 million.

Messrs. Petruzzelli and Raupp told us that they had no inside information and did not represent to Messrs. Ryan and Jenkinson that they did.

As you can see, Mr. Chairman, there are differing versions as to what happened. It is clear, however, that the implications of the Mandell--Jeffers--Ryan--Jenkinson versions are serious. The intentional disclosure of information from an offeror's cost proposal to a competitor is a very serious matter, indeed.

**SSA OFFICIALS ACCEPTED GRATUITIES FROM DH&S AND EDS**

As we reported to you in 1985, DH&S provided numerous gratuities in the form of restaurant meals to SSA officials before the SE&I contract was awarded. Our subsequent investigation revealed that it continued to do so after award. According to information we gathered from DH&S, 83 gratuities, valued in total at some \$1,500, were given to SSA employees from January 1983 through February 1985. None of these was charged directly to the SE&I contract. Approximately \$560 was included in the DH&S firm-wide overhead pool and allocated to both civilian and government contracts, resulting in a very small actual charge to the government.

We reviewed EDS expense vouchers from the date of contract award through August 1984. We found that EDS provided 42 gratuities, totaling about \$750, in the form of restaurant meals to various SSA officials. Approximately \$800 of the cost of meals at 14 occasions including both EDS employees

and SSA officials (accounting for 17 SSA gratuities) was billed directly to the SE&I contract. Two other gratuities (about \$45) were billed indirectly as overhead and 23 were not billed to the government at all.

The DH&S and EDS expense reports we reviewed showed that at least 34 SSA officials received gratuities. Nelson Sabatini, the source selection official for the SE&I contract, was the most frequent recipient, having received 41 meals with an estimated value of about \$750. SSA Commissioner Jack Svahn received 26 meals estimated at \$430. Marshall Mandell received 18 meals at a value of \$225 and Project Officer Herbert Derian, who chaired the technical evaluation committee for the SE&I contract, received 11 meals at \$150.

After contract award DH&S included Elliot Wolf, Mr. Mandell's subordinate in charge of overseeing DH&S performance under the SE&I contract. Mr. Wolf received 13 meals at a total value of about \$250.

Subsequent to our November, 1985, testimony, we referred Mr. Svahn, Mr. Sabatini and DH&S to the Department of Justice for consideration under the provisions of section 201, title 18, United States Code. Justice declined prosecution and we have not made any further referral.

**CONCLUSION**

In November, 1985, we concluded that SSA had provided DH&S unfair advantage in competing for the SE&I contract. Since then we have found more evidence of fundamental wrong and that procurement regulations were grossly violated.