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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



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Mr. Chairman and Members of the Committee:

We are here today to discuss our review of the development and award of the Social Security Administration's (SSA) Systems Engineering and Integration (SE&I) contract. The contract was awarded in December 1982, to Electronic Data Systems (EDS), as the prime contractor, with Deloitte Haskins & Sells (DH&S) as the major subcontractor. As you requested, we specifically reviewed the procurement to determine whether the conduct of SSA officials gave EDS/DH&S an unfair advantage over the other competitors.

Our review disclosed several disturbing features of this procurement which directly relate to the overall fairness of the award. Specifically:

--For the 2 years preceding the award of the SE&I contract, personnel from DH&S were provided highly visible office space at SSA, which they used on a continuing basis. One of the offices used by DH&S was in the commissioner's suite; another was right down the hall. Yet during most of this time, DH&S had no contracts or other formal relationship with SSA--no readily apparent reason for being there at all. SSA officials that we talked to were unable to explain what DH&S was doing for 2 years, but expressed no surprise or concern over what appears to us as a highly irregular arrangement. Two

aspects of DHS's presence at SSA are relevant to the SE&I selection process.

--During this 2-year period, DH&S was given an opportunity not afforded the other offerors to develop relationships with key SSA staff and to obtain detailed information about SSA's operations, organization, ADP environment and the problems associated with SSA's efforts to modernize its computer capability--matters which directly related to the selection of an SE&I contractor.

--DH&S's special status at SSA was conspicuous to most of the SSA officials participating in the selection process--officials charged with objectively and independently evaluating the SE&I proposals. Indeed, several SSA selection officials were witness to DH&S's participation in, or influence of, the management of SSA during this period.

--Finally Mr. Chairman, several SSA officials, including the Commissioner at that time, John Svahn, and the source selection official, Nelson Sabatini, accepted a number of restaurant meals from DH&S. In at least two cases, meals were accepted while the SE&I procurement process was ongoing; the purpose of

one is documented by DH&S as "discussed SE&I proposal."

BACKGROUND OF THE SYSTEMS ENGINEERING
AND INTEGRATION PROCUREMENT

The SE&I procurement is an attempt to use private-sector talent to help SSA implement its Systems Modernization Plan. The Plan, first published in February 1982, sets out a number of goals, all of which focus on modernizing the ADP systems at SSA. As noted in the Plan, the undertaking "requires a complex, highly technical, and extensive engineering and integration effort as well as state-of-the-art tools and techniques." Since most of SSA's resources are required to maintain day-to-day operations, SSA decided to obtain the services of a nationally recognized SE&I contractor to assist in the modernization effort. In a sense, the SE&I contractor is the cornerstone of the Plan.

SSA issued its Request for Proposals on July 30, 1982. In August it prepared a detailed technical evaluation manual and assembled a formal source selection team. The team was made up of a contracting officer, a legal advisor, a four-member Source Selection Advisory Council and two Source Selection Evaluation Committees--a three-member Business Evaluation Committee and a six-member Technical Evaluation Committee.

The Business Evaluation Committee evaluated the cost proposals. The Technical Evaluation Committee evaluated the technical proposals. Both committees reported to the contracting officer and to the Source Selection Advisory Council. They, in turn, reported to the source selection official, Nelson Sabatini, who selected the winner.

The Federal Acquisition Regulation does not require the use of such a formal evaluation structure. The regulation simply requires that the contracting officer evaluate proposals fairly, using the criteria established in the Request for Proposals. In procurements involving large dollar amounts however, an agency often will assemble a formal source selection structure, as was done here. The purposes, in our view, are to assure an objective evaluation in determining the best offer, to assure that tax dollars are wisely spent, and to assure that each interested competitor has a chance of winning the contract fair and square.

SSA awarded a cost-plus-fixed-fee contract for SE&I services to EDS/DH&S in December 1982, after evaluating proposals from six vendors. DH&S, as a subcontractor to EDS on this contract, plays a critical role in the overall integration effort. For example, DH&S was tasked with helping SSA develop and carry out key planning-related tasks such as business systems planning, top-down analysis and functional requirements analysis.

The SE&I contract is the largest consulting services contract ever awarded by SSA. The original contract, which covered the first phase of a planned 5-year effort, was awarded in December 1982, for \$6.3 million. At that time, SSA planned to spend a total of \$17 million for the 5 years. The current contract covers the final 18-month phase of the 5-year SE&I effort. SSA now estimates that it will have spent about \$32 million for SE&I services by the end of the 5-year period--almost double the amount originally contemplated.

DH&S PRESENCE AT SSA

DH&S's presence at SSA initially was associated with the Reagan transition efforts at the Social Security Administration. These efforts at SSA began shortly after the election and ended around Christmas of 1980. The SSA transition team was composed of 10 members who worked out of a suite of offices close to the commissioner's. Vito Petruzzelli, a DH&S director, and John Blair, a DH&S partner, were members of the team and were tasked with preparing issue papers related to SSA's computer problems.

At the close of the effort in late December 1980, most of the transition team promptly vacated the offices provided for the transition. Mr. Petruzzelli and others from DH&S, however, continued to use highly visible offices for about 2 years. Beginning in January 1981, and continuing until the

award of the SE&I contract in December 1982, Mr. Petruzzelli, on a frequent basis, and James Dwight, a DH&S partner, on a less frequent basis, used the offices provided to them at SSA. In the Summer of 1981, Michael Brush, a DH&S manager, was brought in to work at SSA substantially full-time.

We asked both SSA and DH&S personnel the purpose of DH&S's presence at SSA since, at this time, the transition effort was completed and, except for a brief period, DH&S had no contracts with SSA. SSA officials who, in our opinion, would most likely be able to explain DH&S's role at SSA were unable to satisfactorily do so. Several of these officials, however, referred us to John Svahn, the commissioner of SSA, saying that the DH&S people were working directly with him.

Mr. Svahn, who was confirmed as commissioner of the Social Security Administration in May 1981, and is himself a former DH&S manager, acknowledged the DH&S presence in a sworn statement to us but said "Vito [Petruzzelli] did some analysis for Swoap in the transition. * * * [B]ut until they [SSA] awarded the Systems Integration Contract, I don't really have any knowledge of any activity that either one of them [Messrs. Petruzzelli and Dwight] had out there."

David Swoap, head of the Reagan transition team at SSA, and later Undersecretary of HHS, told us that he was surprised to learn that DH&S continued to work at SSA after December 1980. Mr. Petruzzelli of DH&S told us that he was performing

"pro bono services," following up on issue papers prepared during the transition. Mr. Brush, however, told us that his own job was marketing for DH&S. Mr. Brush also told us that, in his view, Mr. Dwight's and Mr. Petruzzelli's roles were "substantially to secure business and leads in business."

In August of 1981, following 8 months of either marketing or simply following up on transition-related issues, DH&S was awarded a contract to review the adequacy of SSA's computer documentation. The contract was completed in October 1981. In December 1981, it received another contract to conduct a seminar for SSA's analysts and programmers. That contract was completed in January 1982. Except for these brief interludes, our attempt to discover a satisfactory explanation for DH&S's 2-year presence at SSA was not successful.

We were given several explanations for SSA's decision to award these two sole-source consulting contracts to DH&S. Mr. Brush of DH&S told us that the contracts resulted from unsolicited proposals submitted by DH&S after talking to SSA managers about their needs. An SSA official who served as project officer for one of these contracts told us that he initiated one of the contracts on his own.

Jack Wicklein, the associate commissioner who is shown in the official contract files to have initiated the second of these procurements explained to us in a sworn statement how he

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that Commissioner Svahn told him that since "they [DH&S] had been here; they had learned our environment; they had provided a great deal of free service under the transition; that maybe this was the time and these were the vehicles. And, since it was a match of need versus skill, we should give them these contracts."

Mr. Wicklein, who told us that he understood this to mean that Commissioner Svahn wanted him to provide DH&S with these contracts, later served on the Source Selection Advisory Council for the SE&I procurement. Commissioner Svahn told us that he has no recollection of the conversation with Mr. Wicklein.

DH&S' Special Knowledge Base

It is obvious that an enterprising company, over an extended period of close association with key personnel in an agency, will acquire a special and advantageous fund of knowledge about that agency's needs. For most of the two-year period preceeding the award of the SE&I contract, DH&S had the benefit of such an association.

In further explaining to us the circumstances surrounding the award of the two sole-source consulting contracts, Jack Wicklein described the special knowledge obtained by DH&S prior to August 1981. Mr. Wicklein stated:

"Deloitte, Haskins and Sells, in the parties of Mr. Vitoi [sic] Petruzzelli and Mr. Michael Brush, had a presence here that continued from early in the transition period up through, and continuing during part of, the SE&I contract and their relationship with EDS. They were here for a period of time. They had, in an advisory capacity, as far as I know, unpaid as part of the Transition Team, gained considerable experience in our operating environment. They knew our software; they know how we ran in the Center; they had learned how we were organized; and they were here and available to do work if we needed it under contract."

Beginning in August 1981, DH&S gained further insight into SSA's ADP problems through the performance of its two brief sole-source consulting contracts. DH&S learned a great deal through extensive interviews with key SSA staff for both the software documentation contract and the seminar for SSA programmers, both of which involved issues relevant to the SE&I contract. The project officer for DH&S's seminar contract told us that its purpose was "to brief [the programmers]

on . . . the stages of growth of a data processing organization so that they . . . had a better understanding of what . . . the Systems Modernization Plan was, what we were trying to do at SSA."

From January 1982, until the award of the SE&I contract in December 1982, DH&S had no contracts with SSA, but continued to work at SSA in the offices provided to them. During this year, DH&S had the continued opportunity to develop relationships with key SSA staff and to obtain detailed information about SSA's operations, organization, ADP environment and the problems associated with SSA's efforts to modernize its computer capability--matters which directly related to the selection of an SE&I contractor.

For example, 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 from DH&S greeted them and proceeded to ask them detailed questions concerning the agency's automation problems, plans, and strategies. The SSA official who told us about the meeting later served on the Technical Evaluation Committee for the SE&I procurement. Commissioner Svahn did not recall lending his office to Mr. Dwight. Mr. Dwight did not recall the meeting with these SSA officials.

Visible Influence in Agency Matters

Important people from DH&S prominently took-up residence at SSA. No one at SSA seems to recall what they were doing; Mr. Petruzzelli characterizes his contributions as "pro bono" work - almost 2 years of it. Whatever the motivation of DH&S's efforts, one has to question whether there wasn't established in the minds of many at SSA, including those charged with objectively and independently evaluating the SE&I proposals, the special relationship that top SSA management had with DH&S, allowing it to participate in the management of SSA.

In May 1982, a disagreement between two associate commissioners was brought to Commissioner Svahn for resolution. The issue was whether to place responsibility for certain computer programmers within SSA's Office of Systems Operations or within its Office of Systems Integration. Managers of each office asserted claim to the "turf." Before making a decision Commissioner Svahn sent his Executive Assistant, Nelson Sabatini, to DH&S's offices in Chicago to obtain the views of Mr. Petruzzelli who, undoubtedly by this time, was especially knowledgeable about the organization of SSA's Office of Systems. Two months later, Mr. Sabatini served as the source selection official for the SE&I procurement.

As I stated earlier, a member of the SE&I Source Selection Advisory Council believed that Commissioner Svahn encouraged him to direct consulting contracts to DH&S in recognition of its contributions to SSA. Also, a future member of the SE&I Technical Evaluation Committee was quizzed by DH&S's Mr. Dwight using the Commissioner's office as his own. These kinds of relationships with the management of SSA demonstrate the special opportunity given DH&S to influence the attitudes and dispositions of the source selection officials. One has to question whether these officials might not have been tempted to substitute the perceived wishes of their superiors for their own objective and independent judgment of who has made the best offer to the government.

GRATUITIES

We found that several SSA officials accepted restaurant meals from DH&S on at least 26 occasions beginning in January 1981, and continuing after the contract award. The officials involved include, among others, Commissioner Svahn, the source selection official, Nelson Sabatini, and the project officer in charge of administering the contract after the award, Herbert Derian.

Office of Personnel Management, Department of Health and Human Services and Social Security Administration regulations specifically prohibit employees from accepting gratuities from

someone that has, or is seeking to obtain, contracts with the employee's principal operating component or with a component of the department in which the employee has official duties. Violations may subject the employee to administrative discipline, including removal.

In our review of DH&S's expense vouchers, we found several particularly disturbing entries. On October 1, 1982, while the offers (including one from EDS/DH&S) were being evaluated by SSA, Mr. Petruzzelli claimed reimbursement from his firm for taking the source selection official, Nelson Sabatini, and his wife to supper at the Inn at Perry Cabin in St. Michaels, Maryland. On the DH&S expense voucher the business purpose of the expenditure was listed as "discussed SE&I proposal."

Mr. Petruzzelli and Mr. Dwight also claimed reimbursement for taking Commissioner Svahn out for meals on several occasions. On August 29, 1982, Mr. Petruzzelli claimed reimbursement for taking Commissioner Svahn and Nelson Sabatini to lunch at Meushaw's Tiffany Room in Baltimore. This also occurred during the SE&I procurement process.

On August 13, 1981, the day before the sole-source contract for software documentation was awarded to DH&S, Mr. Petruzzelli claimed reimbursement for taking Commissioner Svahn and Nelson Sabatini to the Mill Rice Cafe in Baltimore

Svahn's executive assistant and served as the project officer on this contract. Three days later, Mr. Petruzzelli claimed reimbursement for taking Mr. and Mrs. Sabatini to brunch at McGarvey's restaurant in Annapolis, Maryland.

I should note that Mr. Svahn and Mr. Sabatini advised us that, at least to some degree, they reciprocated in kind for these meals. Nevertheless, Mr. Chairman, we found 28 claims for reimbursement, totaling almost \$2,000.00, for the entertainment of a select few SSA officials who were key to the contract which was of interest to DH&S. We are referring the matter to the Department of Justice. Also, one has to wonder how pervasive this practice is at the agency. Therefore, we recommend that the Inspector General of HHS initiate an investigation to determine whether, and to what extent, SSA officials are accepting gratuities.

CONCLUSIONS

In conclusion, Mr. Chairman, DH&S maintained a prominent and influential presence at SSA for the 2 years preceding award of the SE&I contract. During most of this period DH&S had no contracts with SSA, yet DH&S personnel were provided office space, were consulted regularly on matters relevant to the SE&I procurement and were visibly involved in agency matters. They assert they were providing free services and, we have found, free lunches as well. It is my experience there

are few free lunches; I doubt very much that since SSA may have received here were altogether "free." It is highly irregular for agency officials to accept 2 years of so-called free services on matters related to a large consulting contract where the donor of those services has a very substantial interest in getting a piece of that contract.

The behavior of SSA officials during the course of this procurement, I believe, impaired the sense of fairness one expects to accompany the elaborate source selection procedures employed for this contract. These officials did about everything they could to allow DH&S to create what those in the business might call a good marketing environment. In a nutshell, it may be good marketing, but in my opinion, it certainly isn't good contracting and it is not good government.

Mr. Chairman, we understand the FBI is currently investigating several matters at SSA, including the circumstances surrounding the award of this contract. We have agreed to assist them by providing relevant information after these hearings.

PROGRESS OF THE SMP

Mr. Chairman, to this point I have focused on our concerns about the SE&I contract award. Now I would like to address briefly the significant problems which have resulted in part from the lack of an effective systems integration

effort. The systems modernization effort was proposed as a \$500 million, 5-year effort to reverse a degeneration of SSA's systems which, by the late 1970s, had progressed to the point where SSA's ability to perform its mission was threatened. The risk of virtually total breakdown was real. The Social Security Administration could ill afford such risk, paying out as it does about \$163 billion to about 39 million beneficiaries in a single year (1984). The SMP was intended to rescue SSA through an interdependent series of steps which were to be integrated, or coordinated, by the SE&I contractor.

As you know from our recent report to you on the SMP, SSA has not required the contractor to carry out the integration role as originally intended. As we described in our report, SSA diverted the contractor, EDS/DH&S, from integration activities to detailed software tasks. This diversion creates a significant potential for a conflict of interest. In performing its role as integrator, EDS will be in the position of having to identify major flaws or deficiencies in its own work, thereby possibly inhibiting effective systems integration.

Our concern over the lack of effective systems integration is reinforced by other shortcomings we found in SSA's implementation of the SMP. We found overall that critical

components of the modernization program are seriously behind schedule, despite the fact that SSA now projects the costs to increase from the original \$500 million estimate through March 1987, to \$863 million through September 1989.

In addition, SSA has deviated from the plan's approaches in two of the major SMP programs. First, in its data base architecture program, SSA has developed a concept which appears to go beyond the state-of-the-art. This may increase the risks and delay the successful implementation of the plan. Second, in its software development, the most critical component of the modernization effort, SSA has failed to meet its basic objectives. As a result of SSA's management decisions, the agency is pursuing a high-risk approach which, if it fails, could put SSA back into another total system crisis by the 1990s or before.

All that I have said concerning the circumstances surrounding award of the systems integration contract would be bad enough even if we could see the efficient development of a well conceived modern data system progressing. But what we see is quite the reverse. In addition to the highly irregular circumstances prevailing, we are faced with a system that is in deep trouble. We intend to watch closely SSA's progress.

In the meantime, we await the results of the investigations into matters concerning this contract, including the

gratuities. The outcome may well have a significant bearing on how to fashion the most effective response to the management problems we have identified and to chart the best future course for this contract.

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