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SUMMARY
STATEMENT OF
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UNITED STATES GENERAL ACCOUNTING OFFICE

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

THE DEVELOPMENT AND AWARD OF THE SOCIAL SECURITY

ADMINISTRATION'S SYSTEMS ENGINEERING AND

INTEGRATION CONTRACT

Mr. Chairman and Members of the Committee:

We are pleased to be here today. I have a lengthy, detailed statement which I ask to be included in the record and, with your permission, I would like to proceed with a summary of that statement.

In December of 1982, the Social Security Administration awarded the largest consulting contract in its history--the current estimate of cost is about \$32 million. The contract, one for systems engineering and integration, was awarded to Electronic Data Systems, as the prime contractor, with Deloitte, Haskins & Sells as the major subcontractor.

Our review of the circumstances surrounding the award of the integration contract disclosed several disturbing features. Most stem from the fact that, for the 2 years preceding the award, personnel from Deloitte were provided highly visible office space at the Social Security Administration. The offices were used in different degrees but on a continuing basis by Mr. Vito Petruzzelli, a director at Deloitte, Mr. James Dwight, a partner at Deloitte, and Mr. Michael Brush, a manager at Deloitte. One of the offices was in the Commissioner's suite; another was right down the hall. Yet during most of this time, Deloitte had no contracts or other formal relationship with the Social Security Administration.

Those officials at the Social Security Administration most likely to know what Deloitte people were doing at the Administration generally professed ignorance. Several,

however, referred us to John Svahn, at that time Commissioner of the Social Security Administration, saying that the people from Deloitte were working directly with him.

Mr. Svahn, a former manager at Deloitte, acknowledged the presence of Deloitte personnel in a sworn statement to us.

Mr. Svahn said:

"Vito [Petruzzelli] did some analysis for Swoap in the transition. * * * [B]ut until they [Social Security Administration] awarded the Systems Integration Contract, I don't really have any knowledge of any activity that either one of them had out there."

David Swoap, later Undersecretary of Health and Human Services, was head of the Reagan transition team at the Social Security Administration until the team finished its work in December of 1980. Mr. Swoap told us he was surprised to learn that Deloitte continued to work at the Administration after 1980. Mr. Petruzzelli of the Deloitte firm told us that he was performing - "pro bono services," - following up on issue papers prepared during the transition. Mr. Brush, a Deloitte manager, told us that his own job at the Administration was marketing for DH&S. Mr. Brush also told us that, in his view, the roles of Mr. Dwight and Mr. Petruzzelli were--and I quote--"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, the Deloitte firm was awarded a small contract to review the adequacy of the Administration's computer documentation. The

contract was completed in October 1981. In December 1981, it received another small contract to conduct a seminar for analysts and programmers at the Administration. That contract was completed in January 1982. Except for these brief interludes, we could not discover a satisfactory explanation for the 2-year presence of Deloitte at SSA.

We were given several explanations for Social Security's decision to award the two sole-source consulting contracts to Deloitte. 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 believes these two contracts came about. Commissioner Svahn told him that Deloitte--and I am quoting Mr. Wicklein now--

"they 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."

Commissioner Svahn told us that he has no recollection of the conversation with Mr. Wicklein.

Mr. Chairman, 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. During most of the 2-year period preceding award of the contract, Deloitte had no contracts with the Social Security Administration, but was provided the opportunity to develop relationships with key

Administration staff, and to obtain detailed information about the Administration's operations and organization--matters which directly related to the selection of a systems engineering and integration contractor.

An official at the Social Security Administration who later served on the technical evaluation committee 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 Administration official was present. Instead, Mr. Dwight from the Deloitte firm 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, and Mr. Dwight did not recall the meeting with these Administration officials.

Deloitte gained further insight into the Administration's ADP problems through the performance of its two brief sole-source consulting contracts. Extensive interviews were conducted with key Administration staff for both, and both involved issues relevant to the systems engineering and integration contract.

Doubtless, those charged with objectively and independently evaluating the proposals, understood the special relationship that top Administration management had with Deloitte, Haskins and Sells, allowing it to participate in the management of the Administration.

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 one office or another at Social Security. Managers of each office asserted claim to the "turf." Before making a decision, Commissioner Svahn sent his Executive Assistant, Nelson Sabatini, to Chicago, and specifically to the offices of the Deloitte firm, in order to obtain the views of Mr. Petruzzelli. Two months later, Mr. Sabatini was to be appointed as the source selection official for the procurement.

Mr. Chairman, this and other previously stated examples of the relationship between top officials at Deloitte and the Administration make clear, it seems to me, that Deloitte was improperly accorded special opportunity to influence the attitudes of the source selection officials.

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

In our review of Deloitte's expense vouchers, we found several particularly disturbing entries. On October 1, 1982, while the offers were being evaluated by the Administration, Mr. Petruzzelli claimed reimbursement from his firm for taking

the source selection official, Nelson Sabatini, and his wife, to dine at the Inn at Perry Cabin in St. Michaels, Maryland. The business purpose of the Deloitte expenditure was listed on his expense voucher 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 during the procurement process.

On August 13, 1981, the day before the sole-source contract for software documentation was awarded to Deloitte, Mr. Petruzzelli claimed reimbursement for taking Commissioner Svahn and Nelson Sabatini to the Mill Rice Cafe in Baltimore for lunch. At this time, Mr. Sabatini was Commissioner 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 Administration 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 the

Department of Health and Human Services initiate an investigation to determine whether, and to what extent, Administration officials are accepting gratuities.

Deloitte, Haskins & Sells maintained a prominent and influential presence at the Social Security Administration for the 2 years preceding contract award. During most of this period Deloitte had no contracts with the Administration, yet personnel from Deloitte were provided office space, were consulted regularly on matters relevant to the systems engineering & integration 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, and I doubt very much that whatever services the Administration 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 has a very substantial interest in getting a piece of that contract.

The behavior of Administration 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 Deloitte 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 the Social Security Administration, including the circumstances surrounding the award of this contract. We have agreed to assist them by providing relevant information after these hearings.

Before I answer any questions you may have, I would briefly like to address the issue of the Social Security Administration's progress under its computer modernization plan. We recently reported to you on the many problems associated with both the progress of the modernization plan and the administration of this contract which is, in effect, the cornerstone of the plan. We found that critical components of the program are seriously behind schedule and that the original cost estimate of \$500 million through March 1987, has been increased to \$863 million through September 1989. This is due in part to Social Security's poor administration of the contract.

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.

This concludes my statement. I would be happy to answer any questions.