
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**CONTRACT WITH I. LEVY AND ASSOCIATES
FOR DEVELOPMENT AND
IMPLEMENTATION OF THE ELECTRONIC
FOLDER INTERFACE AT
DISABILITY DETERMINATION SERVICES**

September 2007 A-07-07-17104

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.**
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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: September 24, 2007

Refer To:

To: The Commissioner

From: Inspector General

Subject: Contract with I. Levy and Associates for Development and Implementation of the Electronic Folder Interface at Disability Determination Services (A-07-07-17104)

OBJECTIVE

Our objectives were to (1) review the services provided by I. Levy and Associates, Incorporated (I. Levy), under Contract Number 0600-02-60072, and the related costs charged to the Social Security Administration (SSA) for adherence to the negotiated contract terms and applicable regulations, and (2) ensure that SSA received the goods and services for which it contracted.

BACKGROUND

To allow Disability Determination Services (DDS) to support Electronic Disability (eDib) activities,¹ SSA contracted with I. Levy to develop and implement a generic folder interface that allows for the transfer of data between the eDib Folder and DDSs. The contract was completed between September 2002 and January 2007 at 30 DDSs for a total cost of \$23.7 million.²

The Office of Budget, Finance and Management's (OBFM) mission is to provide leadership and oversight on key SSA programs and initiatives. The Office of Acquisitions and Grants (OAG), a component within OBFM, is responsible for SSA procurement and contracting functions. OAG's Contracting Officer is responsible for the

¹ eDib is a major Agency initiative to move all components involved in disability claims intake, adjudication, and review to an electronic business process through the use of an electronic disability folder. When the process is fully implemented, each component will be able to process claims by electronically accessing and retrieving information that is collected, produced, and stored as part of the electronic disability folder.

² The 30 DDSs were Arizona, Arkansas, Colorado, Connecticut, District of Columbia, Florida, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Montana, New Mexico, North Carolina, Ohio, Oklahoma, Puerto Rico, Rhode Island, South Dakota, Vermont, Virginia, Washington, West Virginia, Wisconsin, and the Federal DDS located in Maryland.

award and administration of SSA contracts. OAG appoints an Agency authorized representative as the Government Project Officer to monitor the technical requirements of the contract, including oversight of the contractor's progress and review of invoices. The Project Officer for this contract was located in the Office of Disability Systems (ODS). The contract also required that an employee within each DDS serve as a Task Manager to manage all phases of the project at the DDS and report on the status of the implementation to SSA. The Office of Finance (OF), also a component within OBFM, directs SSA's central accounting activities. Payments for the contract were made by OF. See Appendix B for the scope and methodology of our review.

RESULTS OF REVIEW

We found that the services I. Levy provided and the costs charged to SSA that we reviewed generally adhered to the terms of the contract and that SSA received the goods and services for which it contracted. However, during our review, we found:

- I. Levy completed work outside the terms of the contract prior to receiving authorization.
- Weaknesses in the processes used by the Project Officer that resulted in payment of unallowable travel costs totaling \$6,845.
- Some I. Levy contractor employees did not have personnel suitability background determinations performed.

UNAUTHORIZED WORK

We identified three instances where I. Levy completed work outside the terms of the contract prior to receiving proper authorization. The work that was completed prior to authorization totaled approximately \$2.1 million. The following actions were taken by OAG upon notification that I. Levy completed work that was not authorized in the contract.

- In two of the three instances, it appears that I. Levy began the work on its own initiative. When OAG was notified by I. Levy that billing was ready for work that was completed but not covered by the contract, OAG instructed the Project Officer to submit a contract modification request. The Project Officer provided the modification request to OAG who approved the request and issued the modifications. According to OAG, when a contractor completes work on its own initiative, SSA is under no obligation to accept the contractor's work or pay the contractor. If SSA chooses to accept the work, a contract modification will be executed allowing the contractor to be paid as it was in these two instances.

- For the third instance, ODS authorized I. Levy to complete work that was outside the terms of the contract. ODS did not have authority to approve the work.³ Rather, ODS should have requested a modification from OAG that allowed the work. Upon receipt of invoices from I. Levy for the work outside the terms of the contract, the Project Officer initiated the ratification process.⁴ Under the ratification process, the person who made the unauthorized contractual commitment must furnish OAG with all records and documents having to do with the action.⁵ OAG reviewed the ratification request from the Project Officer, and eventually ratified the unauthorized commitment by issuing a contract modification. According to SSA instructions, the ratification process must be followed to approve or deny payment when a contractor is instructed by an unauthorized individual to complete work.⁶

The contract with I. Levy states “Delivery or performance shall be made only as authorized by orders issued in accordance with the Ordering clause.”⁷ Therefore, the contractor should have been aware that work outside the terms of the contract should not be performed. Since I. Levy is still performing work for SSA under contract number SS00-06-60143, it should remind I. Levy that work is not to be performed prior to authorization by OAG. Further, SSA should remind all ODS Project Officers involved in the procurement process not to enter into unauthorized commitments.

³ Although Project Officers are informed of the proper procedures for the procurement process through Administrative Instructions Manual System instructions, U.S. Department of Health and Human Services (DHHS) Project Officers’ Contracting Handbook, and various training courses, these procedures were not always followed. SSA utilizes the DHHS Project Officers’ Contracting Handbook, however, since this is a DHHS document, references to specific DHHS policies do not apply to SSA.

⁴ Ratification is the act of approving an unauthorized commitment. For the ratification process to be completed, the person who made the unauthorized contractual commitment must furnish the Contracting Officer with all records and documents having to do with the action, as well as a written statement of the facts in the situation including statements as to why the normal procurement process was not used; the work to be done; the estimated or agreed price; the source of available funding; and, information as to whether the contractor has commenced performance. The Contracting Officer will review the information supplied and forward it, with any additional information or comments, to the Head of Contracting Activity (HCA) or a designee for evaluation and approval or disapproval. If ratification is authorized, the HCA will return the file to the Contracting Officer for the proper issuance of a contract modification as well as the ratification notice. DHHS Project Officers’ Contracting Handbook, Section V, Part I.c (2003).

⁵ The ratification document identifies ODS as the one who made the unauthorized contractual commitment rather than identifying an individual person.

⁶ DHHS Project Officers’ Contracting Handbook, Section V, Part I.c (2003).

⁷ Contract Number 0600-02-60072 D-5(b).

TRAVEL COSTS

Of the 144 invoices we reviewed, 28 invoices included travel costs. We found that policies regarding contractor reimbursement of travel costs were not followed for 17 of the invoices (61 percent). Specifically, of the 28 invoices:⁸

- 13 invoices (46 percent) exceeded the per diem rates allowed by Federal Travel Regulations for lodging by approximately \$4,047,
- 11 invoices (39 percent) exceeded the per diem rates allowed by Federal Travel Regulations for meals and incidental expenses by approximately \$1,770, and
- 4 invoices (14 percent) did not have required supporting receipts for expenses totaling approximately \$1,028.

The Project Officer is responsible for ensuring that services have been received and are acceptable in accordance with the terms of the contract.⁹ According to the contract, travel will be reimbursed on a cost reimbursement basis, not to exceed the amount authorized in the contract. In addition, the rates (per diem, personal vehicle mileage, etc.) at which the contractor will be reimbursed for travel shall be no greater than those allowed by Federal Travel Regulations, current as of the time the travel occurs. Travel expenses shall be reimbursed based on actual receipts to be included with invoice submission in accordance with Federal Travel Regulations. Because the Project Officer did not follow Federal Travel Regulations regarding allowable travel costs for lodging and meals and incidentals, unallowable travel costs were paid totaling \$6,845. The Project Officer should ensure travel costs do not exceed Federal Travel Regulations or the amount authorized in the contract.

SUITABILITY DETERMINATIONS

The Project Officer did not properly monitor contractor employees to ensure adherence to Agency security policies. Our review found that of the 63 I. Levy employees who worked on the contract, final suitability determinations were never obtained for 12 employees.¹⁰ This occurred because the Project Officer did not maintain a list of I. Levy employees working on the contract or a record of those who passed suitability

⁸ We identified more than 1 type of error on 10 of the 28 invoices.

⁹ DHHS Project Officers' Contracting Handbook, Section V, Part E.3 (2003).

¹⁰ According to the Center for Personnel Security, 5 of the 12 I. Levy employees had a favorable prescreening, but final suitability determinations were never completed. The remaining seven individuals did not have a prescreening.

requirements. The Information Systems Security Handbook instructs Project Officers to coordinate with the Security Officer to ensure that personnel suitability background investigations are performed for contractor personnel. Furthermore, the Project Officer is to ensure compliance with all contract provisions.¹¹ The contract requires suitability screening for all persons performing on a contract who work with or use SSA systems. In addition, the contract states that all contractor employees either working on-site at an SSA facility, or having access to Agency programmatic or sensitive information, must pass a suitability determination.¹² SSA should strengthen internal controls to ensure that contractor personnel performing under contracts have obtained appropriate background checks prior to beginning work on a contract. This recommendation was made in our report *The Social Security Administration's Information Technology Maintenance and Local Area Network Relocation Contract (A-14-07-17022)*, May 2007. Therefore, we will not formally recommend corrective action.

CONCLUSION AND RECOMMENDATIONS

Although I. Levy and SSA generally adhered to the terms of the contract and SSA received the contracted goods and services, we found that I. Levy completed work outside the terms of the contract prior to authorization. In addition, improper monitoring by the Project Officer resulted in payment of unallowable travel expenses. Further, some I. Levy employees did not have suitability background determinations performed because they were not properly monitored by the Project Officer.

Therefore, we recommend SSA:

1. Remind I. Levy that work is not to be performed prior to authorization by OAG.
2. Remind all ODS Project Officers involved in the procurement process not to enter into unauthorized commitments.
3. Instruct Project Officers to verify that travel costs do not exceed Federal Travel Regulations or the amount authorized in the contract.

¹¹ The Office of Systems, *Security Operations Management's Information Systems Security Handbook*, Appendix B (2007).

¹² Contract Number 0600-02-60072 D-1.

AGENCY COMMENTS

SSA agreed with our recommendations. SSA also provided technical comments which we incorporated in the report as appropriate. The full text of SSA's comments is included in Appendix C.

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 – Agency Comments

APPENDIX D – OIG Contacts and Staff Acknowledgments

Acronyms

AIMS	Administrative Instructions Manual System
DDS	Disability Determination Service
DHHS	Department of Health and Human Services
eDib	Electronic Disability
HCA	Head of Contracting Activity
I. Levy	I. Levy and Associates, Incorporated
OAG	Office of Acquisitions and Grants
OBFM	Office of Budget, Finance and Management
ODS	Office of Disability Systems
OF	Office of Finance
Pub. L.	Public Law
SSA	Social Security Administration
U.S.C.	United States Code

Scope and Methodology

To accomplish our audit objectives, we:

- Reviewed the contract between the Social Security Administration (SSA) and I. Levy and Associates, Incorporated (I. Levy) (Contract Number 0600-02-60072) to assess the contractor's ability to meet and comply with the contract requirements.
- Reviewed applicable sections of the Federal Acquisition Regulations, Administrative Instructions Manual System, SSA Acquisition Regulations, Department of Health and Human Services Project Officers' Contracting Handbook, and the Prompt Payment Act.¹
- Interviewed the SSA Project Officer in the Office of Disability Systems (ODS), the Contracting Officers in the Office of Acquisitions and Grants (OAG), and staff in the Office of Finance (OF) to discuss the required contract deliverables and payment terms.
- Reviewed the records used to monitor the contractor's performance and assessed whether SSA and I. Levy performed in accordance with the contract.
- Obtained a list of the 30 Disability Determination Services (DDS) covered by the contract from ODS. We selected six DDSs based on I. Levy's estimate of the level of programming complexity and services required for each to ensure the goods and services outlined in the contract were received.²
- Obtained lists of invoices for this contract from ODS and OF. The population included 635 invoices that I. Levy charged to SSA. From these invoices we identified the total amount paid to I. Levy, including any interest payments.

¹ The *Prompt Payment Act*, as amended, Pub. L. No. 97-177, 31 U.S.C. § 3901 *et. seq.*

² The six DDSs were Connecticut, Idaho, Louisiana, Montana, Ohio and Washington.

- We selected 144 (23 percent) of the 635 invoices for review. The invoices selected totaled \$15.6 million, which is 66 percent of the total \$23.7 million paid on the contract. The sample included:
 - the 10 smallest invoices,
 - 50 invoices with amounts between \$2,000 and \$95,000,
 - all 80 invoices over \$95,000, and
 - 4 questionable invoices.³

- We reviewed the 144 sampled invoices to ensure:
 - SSA paid amounts approved in the contract,
 - invoices were approved by the Project Officer prior to payment of invoices,
 - SSA paid invoices timely in accordance with the terms of the contract, and
 - invoice amounts were recorded correctly.

We conducted our audit in Kansas City, Missouri and Baltimore, Maryland from November 2006 through March 2007. We determined that the data used for this audit was sufficiently reliable to meet our audit objective. The entities audited were OAG and OF within the Office of Budget, Finance and Management and ODS within the Office of Systems. We conducted our audit in accordance with generally accepted government auditing standards.

³ These four invoices were identified as possible duplicates and could not be resolved without further review.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: August 30, 2007 **Refer To:** S1J-3

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

From: Larry W. Dye /s/

Subject: Office of the Inspector General (OIG) Draft Report, "Contract with I. Levy and Associates for Development and Implementation of the Electronic Folder Interface at Disability Determination Services" (A-07-07-17104)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments on the draft report content and recommendations are attached.

Please let me know if we can be of further assistance. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT, "CONTRACT WITH I. LEVY AND ASSOCIATES FOR DEVELOPMENT AND IMPLEMENTATION OF THE ELECTRONIC FOLDER INTERFACE AT DISABILITY DETERMINATION SERVICES "(A-07-07-17104)

Thank you for the opportunity to review and comment on the draft report. We appreciate your conducting this audit of our contract with I. Levy and Associates for development and implementation of the electronic folder interface at Disability Determination Services.

Recommendation 1

Remind I. Levy that work is not to be performed prior to authorization by the Office of Acquisition and Grants (OAG).

Comment

We agree. The contracting officer sent a reminder to I. Levy on August 3, 2007. In addition, we will provide I. Levy with a copy of this audit report.

Recommendation 2

Remind all Office of Disability Systems project officers involved in the procurement process not to enter into unauthorized commitments.

Comment

We agree. The project officers and project managers will be reminded of the requirement to obtain proper authorization before work beyond the existing contract is conducted. We plan to explore the possibility of developing a streamlined authorization process so that identified work is not delayed.

Recommendation 3

Instruct project officers to verify that travel costs do not exceed Federal Travel Regulations or the amount authorized in the contract.

Comment

We agree. We will issue instructions to contracting officers to provide such information to their project officers when travel will be included as a cost reimbursement line item in an order or contract. We will issue such a reminder by September 14, 2007.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Mark Bailey, Director, Kansas City Audit Division (816) 936-5591

Shannon Agee, Audit Manager (816) 936-5590

Acknowledgments

In addition to those named above:

Khristan Kaufman, Auditor-In-Charge

Katherine Wunsch, Auditor

Kenneth Bennett, IT Specialist

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Office of Audit

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

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