
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**CONTRACT AUDIT OF
HEWLETT PACKARD**

September 2010

A-04-10-11012

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.**
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- 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.**

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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 15, 2010 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Contract Audit of Hewlett Packard (A-04-10-11012)

OBJECTIVE

Our objectives were to determine whether (1) the products, services, and related costs Hewlett Packard (HP) charged the Social Security Administration (SSA) under Contract Number SS00-05-40015 adhered to the negotiated contract terms and applicable regulations and (2) Agency personnel properly monitored the contract.

BACKGROUND

As part of its workstation replacement project, in September 2005, SSA entered into a Blanket Purchase Agreement (BPA) with HP to purchase computers, monitors, peripheral equipment, accessories, and maintenance services. The ordering period under this BPA was 36 months from the date of award with an additional 48-month warranty period for each workstation ordered. The cost of the services under the BPA was estimated at about \$115 million. SSA placed the last call order¹ for computer equipment in September 2008. At that time, SSA's Project Officer (PO) for this contract estimated the Agency had ordered about 86,000 computers and 109,000 monitors. As of August 2009, SSA had paid HP about \$95.2 million under the BPA.

SSA purchased computer equipment for various SSA components, including Headquarters, regional offices, field offices, Office of Disability Adjudication and Review sites, and program service centers. The Agency also purchased computer equipment for State disability determination services.² In total, SSA purchased equipment for about 2,500 components. HP used a shipping company to "drop ship"³ the computer

¹ A call order is an order placed against the BPA. SSA placed 164 call orders against the BPA, and 2 call orders were later canceled.

² Disability determination services are generally State-run agencies that make disability determinations for SSA using the Agency's regulations, policies, and procedures.

³ Equipment is "drop shipped" when it is delivered to a site and unboxed, and the trash is removed by the delivery company if the site desires.

equipment to the sites identified on the call orders. Table 1 details, by SSA component type, the number of computers and monitors ordered, as specified in the call orders.

Table 1: Distribution of Computers and Monitors Ordered by Component

Type of Component	Number of Computers	Number of Monitors	Total
Field Offices	32,771	32,902	65,673
State Disability Determination Services	17,233	30,284	47,517
Headquarters	11,946	14,742	26,688
Processing Service Centers	11,091	11,669	22,760
Office of Disability and Adjudication Review Offices	4,745	10,100	14,845
Regional Offices	3,615	4,956	8,571
Teleservice Centers	985	1,010	1,995
Other	3,543	4,263	7,806
Totals	85,929	109,926	195,855

The prices for the equipment were based on the General Services Administration schedule, Contract Numbers GS-35F-4663G and GS-35F-0066N. Table 2 details the contracted items and the costs agreed upon under the BPA.

Table 2: Contract Items and Prices

Item Description	Unit Price Year 1	Unit Price Year 2	Unit Price Year 3
Desktop Computer	\$599.95	\$599.95	\$599.95
21" Monitor	\$609.37	\$557.03	\$504.68
19" Monitor	\$285.99	\$285.99	\$272.38
1GB Memory	\$115.00	\$115.00	\$115.00
2GB Memory	\$230.00	\$230.00	\$230.00
Keyboards	\$83.15	\$83.15	\$83.15
Surge Protector	\$9.90	\$9.90	\$9.90

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 Acquisition and Grants (OAG), a component within OBFM, is responsible for issuing and administering SSA contracts, purchases, and grants. The Contracting Officer, appointed by OAG, is responsible for the award and administration of SSA contracts. OAG also appoints an Agency-authorized representative as the Government PO to monitor contract technical requirements, including oversight of the contractor's progress and invoices. The PO appointed to this contract was in the Office of Telecommunications and Systems Operations (OTSO), Distributed Data Processing Management Staff.⁴ The Office of Finance, also a component within OBFM, directs SSA's central accounting activities and payments to contractors. For a detailed description of the Project and Contracting Officers' duties, see Appendix C.

SCOPE AND METHODOLOGY

We reviewed the contract and contract modifications. To assess contract compliance, we tested the contractors' invoices to ensure the type of equipment and prices charged were correct and that SSA made accurate and timely payments. We also tested SSA procedures for confirming the receipt of computer equipment.

HP's invoices and monthly *Inventory Reports*⁵ were the only sources of serial numbers for the computers and monitors HP billed and reported as delivered. However, HP's invoices did not consistently include serial numbers for the billed computer and monitors. Therefore, we could not rely on the invoices to develop a complete population of computers and monitors. Further, we were unable to reconcile the quantity of computers and monitors detailed on HP's monthly *Inventory Reports* to the quantities ordered and billed. Accordingly, we were unable to rely on these reports to establish an accurate population of computers and monitors. Because both sources of equipment serial numbers proved to be unreliable, we did not select a sample of computers and monitors to determine whether the asset existed and met the technical specifications outlined in the contract. Without such tests, we were unable to determine whether HP fully complied with the contract terms.

See Appendix B for more information regarding our scope and methodology.

⁴ The Distributed Data Processing Management Staff component was renamed the Division of Systems Installation and Integration Management in October 2008, after the HP contract period.

⁵ According to the BPA, the Contractor shall provide the PO and Contracting Officer, on the 10th of every month, a complete inventory of all computers and monitors delivered. HP's monthly *Inventory Report* should include for each delivery site, at a minimum, the related call order number, SSA's office site code, the quantity and serial numbers of the computers and monitors delivered, delivery date, and delivery address.

RESULTS OF REVIEW

We were unable to determine whether the products, services, and total costs HP charged adhered to the negotiated contract terms and applicable regulations. Specifically, SSA did not reconcile the total quantity of equipment it *ordered* with the quantity of equipment HP's records indicated it *delivered*. Our attempts to reconcile these records were unsuccessful. Additionally, other variances existed among HP's inventory records, the PO's records, and HP's invoices. Given these wide variances, we were unable to rely on the equipment totals and could not perform certain audit tests.

While we recognize challenges the Agency may have faced in overseeing the purchase of such a large quantity of computer equipment, we believe SSA should have had a comprehensive system for tracking and reconciling equipment orders, delivery receipts, quantities invoiced, and asset inventory lists. In our September 2006 report, *The Social Security Administration's Oversight of the Dell Workstation Blanket Purchase Agreements under the General Services Administration's Schedule Contract GS-35-F-4076D* (A-15-06-16073), we stated that SSA's contract oversight could be improved to ensure contracted goods are received and reconciled to the Agency's accounting records. Based on the findings presented in this report, we believe SSA's contract oversight procedures for purchases of large quantities of computer equipment continue to need improvement.

To SSA's credit, the type of equipment and unit prices HP charged to SSA agreed with the contract terms. Additionally, HP submitted invoices to SSA promptly and SSA made timely payments.

SSA'S CONTROLS COULD BE IMPROVED TO HELP ENSURE CONTRACTOR PERFORMANCE

Given the large volume of computers and monitors purchased and cost of this BPA, we believe SSA needs a comprehensive system for tracking and reconciling equipment orders, delivery receipts, quantities billed, and asset inventories to improve contract oversight. We found the total quantity of computers and monitors ordered did not agree with the quantities on (1) the PO's call order tracking worksheet, (2) HP's *Inventory Reports*, and (3) HP's invoices. Table 3 illustrates the varying figures we obtained from the relevant sources. Using these figures, in a best-case scenario, SSA could owe HP about \$98,000 for 345 computers and monitors ordered but not billed. On the other hand, if we relied on HP's *Inventory Reports*, SSA overpaid the contractor approximately \$2.9 million for 6,386 computers and monitors billed but not received.

Table 3: Variances in Contract Records

Data Source	Number of Computers	Number of Monitors	Total Computers and Monitors	Variance to Call Order Total	Variance to Invoices (paid)
Call Orders	85,929	109,926	195,855		345
PO's Tracking Sheets	86,036	108,787	194,823	(1,032)	(687)
HP's <i>Inventory Reports</i>	82,376	106,748	189,124	(6,731)	(6,386)
Invoices (Paid)	85,918	109,592	195,510	(345)	

OTSO had not identified these variances before the audit because its oversight procedures did not include an overall reconciliation of these records. Further, because the PO did not reconcile these data, OTSO was unable to provide the specific number of computers and monitors delivered and paid for under the contract.

OTSO acknowledged that HP's inventory report was incomplete and that this condition may have affected the accuracy of SSA's asset inventory records. However, OTSO emphasized that it did not rely on HP's *Inventory Report* to confirm the receipt of the computer equipment or authorize payment. Rather, the PO generally relied on shipping contractors' records to confirm receipt of equipment and verify invoiced quantities. OTSO acknowledged oversight procedures could be improved to better track, monitor, and document the numerous oversight actions that occur during this type of contract.

Although we attempted to reconcile the various contract records, given the time that had passed and the lack of supporting documentation, doing so proved unsuccessful. Further, we believe recommending that SSA attempt to reconcile the numerous transactions at this date would be impractical. Accordingly, we will not recommend that OTSO attempt to retroactively reconcile the records for this contract. Rather, we will recommend that routine reconciliations be performed on future and ongoing contracts of this nature and magnitude.

PROCEDURES COULD BE IMPROVED TO HELP ENSURE CONTRACTED GOODS ARE RECEIVED

Our tests of computer equipment deliveries determined that 11 of the 50 deliveries tested did not have sufficient evidence to support receipt of the computer equipment. Specifically, for 7 of the 11 deliveries, the shipping records did not support the quantities ordered and billed. For the four remaining deliveries, shipping records were not available. During the course of the contract, the PO relied on the shipping contractors' Web-based shipping records to confirm receipt of equipment but did not maintain copies of these records. As such, to respond to our audit, OTSO revisited the Websites to obtain the shipping records. However, according to OTSO, records for four deliveries were no longer available.

OTSO believed its contract oversight procedures were generally adequate to ensure (1) SSA received the equipment ordered and (2) HP properly billed for this equipment. OTSO acknowledged that the process of confirming and documenting receipt of computer equipment delivered to the numerous components across SSA's 10 regions remains a challenge. Specifically, efforts to record, maintain, review, and manage the receiving information can be cumbersome and time-consuming.

OTSO representatives stated that the component had considered implementing various processes to better manage receiving information. An improvement under consideration involves a Web-based application that would require that components electronically certify receipt of computer equipment. A designated contact at each component would be prompted to log on to a Website (using a personal identification number) and certify the specific counts and types of computer equipment received. The PO could then rely on the certified receiving information to monitor the contractor's performance and to make decisions to pay invoices.

CONCLUSION AND RECOMMENDATIONS

The type of equipment and unit prices HP charged to SSA agreed with the contract, and SSA made accurate, timely payments. However, SSA's contract oversight needed improvement. We believe SSA should implement a comprehensive system for tracking and reconciling key contract control numbers, such as quantities of computer equipment ordered, delivered, and paid. Finally, SSA could not provide proof of receipt for all of the computer equipment deliveries we tested.

Accordingly, we recommend that SSA:

1. For future and ongoing contracts involving large computer purchases, develop a comprehensive process for reconciling equipment orders, delivery receipts, quantities invoiced, and asset inventory lists.
2. Implement a system or process in which components can electronically certify the receipt of specific types and quantities of computer equipment received and billed.

AGENCY COMMENTS

The Agency agreed with our recommendations. The full text of the Agency's comments is included in Appendix D.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Contracting and Project Officer Responsibilities

[APPENDIX D](#) – Agency Comments

[APPENDIX E](#) – OIG Contacts and Staff Acknowledgments

Appendix A

Acronyms

BPA	Blanket Purchase Agreement
CO	Contracting Officer
HP	Hewlett Packard
OAG	Office of Acquisition and Grants
OBFM	Office of Budget, Finance and Management
OIG	Office of the Inspector General
OTSO	Office of Telecommunications and Systems Operations
PO	Project Officer
SSA	Social Security Administration

Scope and Methodology

To accomplish our objectives, we:

- Obtained and reviewed the Blanket Purchase Agreement (BPA) and the Social Security Administration's (SSA) seven BPA modifications.
- Reviewed pertinent sections of SSA's policies and procedures and relevant Federal laws and regulations.
- Interviewed SSA's Office of Telecommunications and Systems Operations staff to gain an understanding of contract oversight procedures related to the Hewlett Packard (HP) contract.
- Reviewed Department of Health and Human Services, Project Officers' Contracting Handbook Sections.
- Obtained and reviewed the 164 call orders placed against the BPA. For the call orders that required multiple delivery locations, SSA attached a delivery spreadsheet that provided the quantity, type of equipment, and delivery information for each location.
- We sampled 50 delivery locations from the 164 call orders to determine whether (1) computers and monitors were delivered as ordered, (2) the receipt of the computer equipment was properly supported, and (3) SSA was billed correctly.
- Obtained the contractor invoices from the Office of Budget, Finance and Management. HP submitted 223 invoices to SSA.
 - We sampled 50 of the 223 invoices for price testing.
- Obtained HP's monthly *Inventory Reports*.¹
- Compared each of the 223 invoices to the call orders to determine whether the quantity of computer equipment agreed.

¹ According to the BPA, the Contractor shall provide the Project and Contracting Officers, on the 10th of every month, a complete inventory of all computers and monitors delivered. HP's monthly *Inventory Report* should include for each delivery site, at a minimum, the related call order number, SSA's office site code, the quantity and serial numbers of the computers and monitors delivered, delivery date, and delivery address.

- Tested HP and SSA's compliance with the contract's security requirements.
 - We sampled 50 of the 1,183 personnel names HP submitted to SSA for a suitability determination.

HP's invoices and monthly *Inventory Reports* were the only sources of serial numbers for the computers and monitors HP billed and reported as delivered. However, HP's invoices did not consistently include serial numbers for the billed computer and monitors. Therefore, we could not rely on the invoices to develop a complete population of computers and monitors. Further, we were unable to reconcile the quantity of computers and monitors detailed on HP's monthly *Inventory Reports* to the quantities ordered and billed. Accordingly, we were unable to rely on these reports to establish an accurate population of computers and monitors. Because both sources of equipment serial numbers proved to be unreliable, we did not select a sample of computers and monitors to determine whether the asset existed and met the technical specifications outlined in the contract. Without such tests, we were unable to determine whether HP fully complied with the contract terms.

The SSA entity audited was the Office of Acquisition and Grants in the Office of Budget, Finance and Management. Our review of internal controls was limited to gaining an understanding of Office of Telecommunications and Systems Operations' procedures used to monitor the contract. We conducted our audit between August 2009 and May 2010 in Atlanta, Georgia, and Baltimore, Maryland. We conducted this performance 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 audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix C

Contracting and Project Officer Responsibilities

During the pre-solicitation phase, the Project Officer (PO) has the lead, and the Contracting Officer (CO) operates as an advisor. Then, in the solicitation and evaluation and award phases, the lead shifts to the CO, with the PO acting largely as an advisor. In the post-award phase, the PO (acting as the CO's authorized representative, within the authority limits designated by the CO), assumes lead responsibility for some functions and the CO for others.

PRESOLICITATION PHASE	LEAD	SUPPORT
Market Research	PO	CO
Identify Requirements	PO	CO
Planning Schedule	CO	PO
Statement of Work	PO	CO
Technical Evaluation Criteria	PO	CO
Special Approvals	PO	CO
Prepare SSA-393	PO	CO
SOLICITATION PHASE		
Synopsis	CO	PO
Prepare Solicitation	CO	PO
Receipt of Offers	CO	PO
EVALUATION AND AWARD PHASE		
Technical Evaluation	PO	CO
Business Evaluation	CO	PO
Discussions (If Required)	CO	PO
Contract Preparation & Award	CO	PO
Debriefing	CO	PO
POST-AWARD PHASE		
Monitoring Technical Performance	PO	CO
Reviewing Progress Reports	PO	CO
Inspection and Acceptance	PO	CO
Contract Administration	CO	PO

Appendix D

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: August 26, 2010 Refer To:

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

From: James A. Winn /s/
Executive Counselor
to the Commissioner

Subject : Office of the Inspector General (OIG) Draft Report, "Contract Audit of Hewlett Packard"
(A-04-10-11012)—INFORMATION

Thank you for the opportunity to review the draft report. Attached is our response to the report's findings and recommendations.

Please let me know if we can be of further assistance. Please direct staff inquiries to Rebecca Tothero, Acting Director, Audit Management and Liaison Staff at (410) 966-6975.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “CONTRACT AUDIT OF HEWLETT PACKARD” A-04-10-11012

Thank you for the opportunity to review the subject draft report. We appreciate that you recognize the challenges we face “in overseeing the purchase of such a large quantity of computer equipment.” Nevertheless, we agree with your statement that our “controls could be improved to help ensure contractor performance,” and we are taking actions to make those improvements.

We offer the following in response to your recommendations.

Recommendation 1 reads:

“For future and ongoing contracts involving large computer purchases, develop a comprehensive process for reconciling equipment orders, delivery receipts, quantities invoiced, and asset inventory lists.”

And Recommendation 2 reads:

“Implement a system or process in which components can electronically certify the receipt of specific types and quantities of computer equipment received and billed.”

We agree with both of your recommendations. They are closely related, so we address them as one below.

Background: As components need equipment of the type provided under the Hewlett Packard (HP) contract, a project officer oversees activity at a high level. When we award a contract, a Contracting Officer’s Technical Representative (COTR) takes on responsibility for managing many of the activities related to that contract. As the vendor delivers equipment, the COTR must ensure that a responsible official confirms receipt and that deliveries comply with contract terms. This includes confirmation of quality, quantity, etc. When vendors submit invoices, the COTR must certify that amounts billed matched equipment received. We then pay vendors accordingly.

We follow this practice for the thousands of contractor invoices we pay each year, and we comply with our policies in the vast majority of cases. You are recommending that we further enhance those policies and develop electronic processes to assist us in tracking and certifying receipt of computer equipment. We agree, and we are adding functionality to our Project Tracking System (PTS) for that purpose.

This new PTS application will be available at all of our locations nationwide. We will use it to track activity for all major workstation purchases made under contracts such as the one with HP. As we award contracts and orders, we will populate PTS with detailed information about contract terms and conditions, quantities, costs, and other information. As vendors make deliveries, we will electronically certify receipt of equipment.

In practice, the person receiving the equipment for the agency will access PTS, enter a site code, the quantities of equipment delivered, and the date of receipt for each item. As part of this process, we will use the domain personal identification number of the user to associate the certification with the username. Once the COTR receives an invoice for certification, the COTR will then be able to check the invoice against the PTS to verify equipment received and billed. We expect to implement the new PTS functionality by December 2010.

As a further control, we will also utilize asset inventory lists more effectively. We receive these directly from the vendor every month, and the lists provide detailed information about deliveries. We will reconcile this information to corresponding orders.

Appendix E

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kimberly A. Byrd, Director, Atlanta Audit Division

Frank Nagy, Audit Manager

Acknowledgments

In addition to those named above:

Valerie Ledbetter, Senior Auditor

For additional copies of this report, please visit our Website at
www.socialsecurity.gov/oig or contact the Office of the Inspector General's Public Affairs Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-04-10-11012.

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The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

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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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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.