

Audit Report

The Social Security Administration's
Information Technology Costs of the
National Support Center

A-04-16-50138 / May 2017

MEMORANDUM

Date: May 16, 2017 **Refer To:**
To: The Commissioner
From: Acting Inspector General
Subject: The Social Security Administration's Information Technology Costs of the National Support Center (A-04-16-50138)

The attached final report presents the results of the Office of Audit's review. The objectives were to determine whether the (1) National Support Center's information technology costs for Fiscal Years 2009 through 2015 agreed with the Social Security Administration's reported costs, and (2) information technology equipment and services purchased agreed with the contract terms.

If you wish to discuss the final report, please call me or have your staff contact Rona Lawson, Assistant Inspector General for Audit, 410-965-9700.



Gale Stallworth Stone

Attachment

The Social Security Administration's Information Technology Costs of the National Support Center

A-04-16-50138



May 2017

Office of Audit Report Summary

Objectives

To determine whether the (1) National Support Center's (NSC) information technology (IT) costs for Fiscal Years 2009 through 2015 agreed with the Social Security Administration's (SSA) reported costs, and (2) IT equipment and services purchased agreed with the contract terms.

Background

In 2016, SSA replaced its more than 30-year-old National Computer Center with the NSC. The NSC, along with a Second Support Center, maintains SSA's demographic, wage, and benefit information on U.S. citizens.

SSA purchased IT equipment for both data centers. Services purchased included moving and installing the IT equipment and software support.

SSA's financial system captures contractors' invoices, which reflect the items purchased or work completed according to the agreement, and certifies acceptance of the delivered items. SSA's receiving staff physically accepts the purchases at the loading dock, assigns barcodes, records the serial number, and associates each item with the contract. However, SSA does not link this asset information to the invoice.

Findings

We determined the NSC's IT costs for Fiscal Years 2009 through 2015 generally agreed with SSA's reported costs. The equipment and unit prices vendors charged SSA generally agreed with the contracts, and SSA generally made accurate and timely payments. However, despite our previous recommendations to improve its asset management, SSA had not enhanced its inventory receipt and recordkeeping processes. Specifically, it had not used its asset management system to track assets from purchase to delivery and installation. The NSC is operational and houses large amounts of IT equipment. However, because SSA did not reconcile assets received to the invoices, we could not ensure vendors complied with the contract terms.

Accounting for IT equipment has been an ongoing issue for SSA. However, SSA has been improving its inventory management.

According to SSA's IT Asset Management and Support Services Branch, it recognizes the need to reconcile assets to the invoices and purchase documents, and is collaborating with the Office of Acquisition and Grants to change the processes and automation between the procurement system and the inventory system. This requires an overall project plan, new process documents, and retraining of acquisition teams. We believe these improvements to the asset management system would provide a more effective inventory reconciliation.

Recommendation

We recommend that SSA develop a comprehensive process for reconciling equipment orders, delivery receipts, quantities invoiced, and asset inventory lists. SSA agreed with our recommendation.

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ABBREVIATIONS

BPA	Blanket Purchase Agreement
C.F.R.	Code of Federal Regulations
FAR	Federal Acquisition Regulation
GSA	General Services Administration
IT	Information Technology
NASA	National Aeronautics and Space Administration
NSC	National Support Center
OIG	Office of the Inspector General
Pub. L. No.	Public Law Number
RFID	Radio Frequency Identification
SEWP	Solutions for Enterprise-Wide Procurement
SSA	Social Security Administration
SSC	Second Support Center
Stat.	Statutes at Large

OBJECTIVES

Our objectives were to determine whether the (1) National Support Center's (NSC) information technology (IT) costs for Fiscal Years 2009 through 2015 agreed with the Social Security Administration's (SSA) reported costs, and (2) IT equipment and services purchased agreed with the contract terms.

BACKGROUND

In 2016, SSA replaced its more than 30-year-old National Computer Center with the NSC. The NSC, along with a Second Support Center (SSC),¹ maintains SSA's demographic, wage, and benefit information on U.S. citizens. Figure 1 illustrates SSA's timeline from planning to IT migration at the NSC.

Figure 1: NSC Timeline



SSA used approximately \$160 million of its *American Recovery and Reinvestment Act of 2009*² funds to equip both data centers. Services SSA purchased included moving and installing the IT equipment and software support. Table 1 provides a snapshot of IT items purchased.

Table 1: Snapshot of Items Purchased for the NSC

Approximate Quantity	Item
1,700 miles	Communication cable
1,000	Servers
2,500	Virtual servers (Cloud Computing)
600	Network devices
8	Mainframes/coupling facilities
8	Silos
1	Radio Frequency Identification System

Source: SSA.

¹ The SSC houses approximately one-half of the Office of Operations and hardware engineering processing environment. The SSC has been in operation since 2010.

² *American Recovery and Reinvestment Act of 2009*, Pub. L. No. 111-5, 123 Stat. 115, p. 185-186 (2009).

Purchase and Receipt of Assets

SSA's financial system captures contractors' invoices, which reflect the items purchased or work completed according to the agreement, and certifies acceptance of the delivered items—that is, the items received complied with contract terms (cost, quantity, and product specification). SSA's receiving staff physically accepts the purchases at the loading dock, assigns barcodes (asset tag and Radio Frequency Identification [RFID]), records the serial number, and associates each item with the contract. However, SSA does not link this asset information to the invoice.

Scope and Methodology

To accomplish our objectives, we reviewed the contracts and determined SSA received 580 invoices totaling \$137 million in Fiscal Years 2009 through 2015. We selected 48 invoices from the 17 largest vendors (each vendor's total invoices was over \$1.8 million), and randomly selected 25 invoices (each over \$10,000) from the remaining 34 vendors whose invoices totaled less than \$1.8 million. We used these invoices to determine whether purchases and prices charged and services and equipment received complied with the agreed price and specifications in the contract and SSA made accurate and timely payments. Additionally, we assessed SSA's procedures for confirming and recording the receipt of IT equipment it purchased. Our complete scope and methodology is in Appendix A.

RESULTS OF REVIEW

We determined the NSC's IT costs for Fiscal Years 2009 through 2015 generally agreed with SSA's reported costs. The equipment and unit prices vendors charged SSA generally agreed with the contracts, and SSA generally made accurate and timely payments. However, despite our previous recommendations to improve its asset management, SSA had not enhanced its inventory receipt and recordkeeping processes. Specifically, it had not used its asset management system to track assets from purchase to delivery and installation. The NSC is operational and houses large amounts of IT equipment. However, because SSA did not reconcile assets received to the invoice, we could not ensure vendors complied with the contract terms.

Accounting for IT equipment has been an ongoing issue for SSA. In 2006 and 2010, our audits of SSA's management of IT contracts determined that SSA relied on shipping companies' and contractors' status reports to confirm the receipt and quantity of equipment. In 2006, we determined SSA needed to improve its oversight to ensure contracted goods received were reconciled to accounting records. We recommended that SSA revise its policies and procedures to address shipping and receiving of IT equipment, which included verifying that SSA had received, and entered into the asset management system, all IT equipment ordered under a contract. SSA agreed with our recommendation.³ In September 2010, we determined that SSA's

³ SSA, OIG, *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 (September 2006).

contract oversight still needed improvement. Accordingly, we recommended that SSA establish a comprehensive system for tracking and reconciling equipment orders, delivery receipts, quantities invoiced, and asset inventory lists. SSA agreed with our recommendations.⁴ In December 2010, we further recommended that SSA conduct physical inventories and reconcile the inventory results with quantities ordered on task orders. SSA agreed with our recommendations.⁵

Since 2010, SSA has worked to improve its inventory management. For example, SSA implemented an inventory system for the NSC and SSC based on RFID.⁶ The RFID inventory system uses a chip on each physical item to capture the actual presence of that item in a data center. The RFID system uploads information to the IT asset management system. However, SSA had not reconciled the assets in its RFID to the asset management system because the RFID equipment was not updating correctly. Moreover, neither system reconciled SSA assets to an invoice.

According to SSA's IT Asset Management and Support Services Branch, it recognizes the need to reconcile assets to the invoices and purchase documents and is collaborating with the Office of Acquisition and Grants to change the processes and automation between the procurement system and the inventory system. This requires an overall project plan, new process documents, and retraining of acquisition teams. We believe these improvements to the asset management system would enable a more effective inventory reconciliation.

CONCLUSIONS

The prices vendors charged to SSA generally agreed with the contracts, and SSA generally made accurate and timely payments. However, despite our previous recommendations to improve its asset management, SSA had not enhanced its inventory receipt and recordkeeping processes or used its asset management system to track assets from purchase to delivery and installation. Because SSA did not reconcile assets received to the invoice, we could not ensure vendors complied with the contract terms.

RECOMMENDATION

We recommend that SSA develop a comprehensive process for reconciling equipment orders, delivery receipts, quantities invoiced, and asset inventory lists.

⁴ SSA, OIG, *Contract Audit of Hewlett Packard*, A-04-10-11012 (September 2010).

⁵ SSA, OIG, *The Social Security Administration's Voice over Internet Protocol Contract*, A-14-09-19045 (December 2010).

⁶ The RFID system cost SSA approximately \$266,000.

AGENCY COMMENTS

SSA agreed with our recommendation. The full text of SSA's comments is included in Appendix B.

OTHER MATTER

While we found that SSA generally paid invoices timely, we identified 11 invoices that SSA paid late and for which it incurred \$1,565 in interest charges. According to section 1315.10(a)(1) of the *Prompt Payment Act*,⁷ agencies calculate interest from the day *after* the payment due date through the payment date at the interest rate in effect on the day *after* the payment due date. We questioned SSA as to why it paid these invoices late, and SSA provided the following explanations.

- The Government furlough in October 2013 delayed all stages of SSA's payment process, which also delayed payment for three invoices.
- SSA experienced payment-processing issues that delayed the remaining payments.



Rona Lawson
Assistant Inspector General for Audit

⁷ 5 C.F.R. § 1315.10(a)(1) (1999).

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

Our objectives were to determine whether the (1) National Support Center’s (NSC) information technology (IT) costs for Fiscal Years 2009 through 2015 agreed with the Social Security Administration’s (SSA) reported costs, and (2) IT equipment and services purchased agreed with the contract terms.

To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations and pertinent sections of SSA’s policies and procedures.
- Obtained and reviewed the contracts associated with the NSC’s IT-related purchases. SSA used such purchasing instruments as call orders, task orders, and blanket purchase agreements.¹ SSA purchased the majority of its IT equipment and services using General Services Administration (GSA) and National Aeronautics and Space Administration (NASA) contracts.²
- Obtained a list of the 580 invoices, totaling \$137 million, 55 vendors sent SSA during the audit period (Fiscal Years 2009 through 2015).
- Selected, from 51 vendors,³ 73 (14 percent) of 518 invoices, totaling \$74 million (54 percent) of \$137 million.
 - From the 17 largest vendors, we selected 48 invoices.⁴
 - From the remaining 34 vendors, we randomly selected 25 invoices.⁵

¹ A call order is placed against a blanket purchase agreement (BPA). SSA, Office of Budget, Finance, Quality, and Management, *Issuing a BPA: Guidance for Micro-Purchasers*, oag.ba.ad.ssa.gov (REV. December 2007). A task order is for services placed against an established contract or with Government sources. Federal Acquisition Regulation (FAR) 2.101(b) (2017). A BPA is a simplified method of filling anticipated repetitive needs for supplies or services by establishing “charge accounts” with qualified sources of supply. FAR 13.303-1(a) (2017).

² Under the GSA schedules program, GSA establishes long-term, Government-wide, indefinite delivery contracts with commercial vendors to provide government agencies access to supplies and services at volume-buying discounted prices. SSA, *Administrative Instructions Manual System, Materiel Resources Manual*, ch. 06.02., sec. 06.02.03 (May 14, 2015). GSA schedules program are also described in FAR 8.402 (2017). The NASA Solutions for Enterprise-Wide Procurement (SEWP) is a multi-award Government-wide acquisition contract vehicle focused on commercial IT products and services. NASA, SEWP V, sewp.nasa.gov (last visited August 31, 2016). NASA SEWP is a Government-wide acquisition contract as described in FAR 17.501 (2015).

³ We did not sample from four of the vendors because they did not have any invoices more than \$10,000.

⁴ Each of the 17 largest vendors’ total invoices was over \$1.8 million.

⁵ Each of the 34 vendors had an invoice more than \$10,000, and the combined total of their invoices was less than \$1.8 million.

- Reviewed contract file (Social Security Administration's Streamlined Acquisition System) and invoice file (Social Security Online Accounting and Reporting System) documentation for each invoice selected to determine whether the costs were reasonable, allowable, and allocable in accordance with contract terms and applicable Government acquisition regulations.
- Ensured required signatures were included in the Social Security Online Accounting and Reporting System.
- Interviewed the Contracting Officer Technical Representatives and key personnel in the NSC.

We could not rely on SSA's records or invoices to develop a complete population of IT equipment it purchased for its NSC or its Second Support Center. We conducted our work from May through December 2016 in Atlanta, Georgia. The principal entities audited were the Offices of the Deputy Commissioners for Systems and Budget, Finance, Quality, and Management.

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 objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: May 4, 2017 Refer To: S1J-3

To: Gale S. Stone
Acting Inspector General

From: Stephanie Hall /s/
Acting Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, “Social Security Administration's Information Technology Costs of the National Support Center” (A 04-16-50138)--INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

COMMENTS ON OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT, “THE SOCIAL SECURITY ADMINISTRATION’S INFORMATION TECHNOLOGY COSTS OF THE NATIONAL SUPPORT CENTER” (A-04-16-50138)

Thank you for the opportunity to review the draft report. To protect taxpayer funds, we recognize the need to reconcile our purchase documents with our asset inventory lists. We will continue efforts to automate our procurement and inventory processes. We believe these enhancements will enable a more effective inventory reconciliation.

Recommendation

SSA should develop a comprehensive process for reconciling equipment orders, delivery receipts, quantities invoiced, and asset inventory lists.

Response

We agree.

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