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STATEMENT OF  
WARREN G. REED  
DIRECTOR  
INFORMATION MANAGEMENT AND  
TECHNOLOGY DIVISION  
BEFORE THE  
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY  
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS  
ON SOCIAL SECURITY ADMINISTRATION'S  
MANAGEMENT OF ITS DATA COMMUNICATIONS CONTRACTS  
WITH PARADYNE CORPORATION



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MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

WE ARE PLEASED TO BE HERE TODAY TO DISCUSS OUR RECENT REPORT RELATING TO THE SOCIAL SECURITY ADMINISTRATION'S (SSA) EFFORTS TO REPLACE ITS DATA COMMUNICATIONS TERMINALS. IN 1981, THE AGENCY AWARDED A CONTRACT--VALUED AT NEARLY \$115 MILLION--TO THE PARADYNE CORPORATION OF LARGO, FLORIDA, TO INSTALL MORE THAN 1,800 NEW COMMUNICATIONS TERMINALS IN ITS 1,350 FIELD OFFICES NATIONWIDE. IN SHORT, MR. CHAIRMAN, WE FOUND NUMEROUS INADEQUACIES IN SSA'S DEVELOPMENT AND MANAGEMENT OF THIS AND A FOLLOW-ON DATA COMMUNICATIONS CONTRACT WITH PARADYNE. THESE MANAGEMENT WEAKNESSES, COMBINED WITH ORGANIZATIONAL DEFICIENCIES, INADEQUATE GSA INVOLVEMENT, AND INSUFFICIENT HHS OVERSIGHT, RESULTED IN SSA ACQUIRING A DATA COMMUNICATIONS SYSTEM WHICH, ACCORDING TO RECENT SSA ANALYSES, DID NOT BEGIN TO MEET CONTRACTUAL SYSTEM PERFORMANCE REQUIREMENTS ON A CONSISTENT BASIS UNTIL APRIL 1983 AND STILL EXHIBITS AN ABOVE-NORMAL LEVEL OF EQUIPMENT FAILURES. WE HAVE CONCLUDED THAT THESE MANAGEMENT, ORGANIZATIONAL, AND OVERSIGHT WEAKNESSES CONTINUE TO EXIST AT SSA--JEOPARDIZING FUTURE SYSTEMS PROCUREMENTS.

### BACKGROUND

TO HELP PUT THE IMPORTANCE OF SSA'S CONTRACTING EFFORTS INTO PERSPECTIVE, LET ME OFFER SOME BRIEF BACKGROUND INFORMATION ON SSA'S DATA COMMUNICATIONS ENVIRONMENT PRIOR TO ITS AWARD OF THE TERMINAL CONTRACT. IN 1980, BEFORE SSA BEGAN IMPLEMENTING A PLAN

FOR IMPROVING ITS DATA COMMUNICATIONS NETWORK, THE AGENCY WAS EXPERIENCING SIGNIFICANT OPERATING PROBLEMS WITH THE TWO TYPES OF TERMINAL EQUIPMENT IN ITS LOCAL OFFICES. THE VIDEO DISPLAY EQUIPMENT, ACQUIRED IN 1973 AND APPROACHING THE END OF ITS SYSTEMS LIFE, BROKE DOWN FREQUENTLY AND LACKED SELF-DIAGNOSTIC AND CERTAIN SECURITY CAPABILITIES. IN ADDITION, THE TELETYPEWRITER UNITS WERE SLOW, NOISY, INEFFICIENT, AND RELATIVELY COSTLY TO SUPPORT. BECAUSE THESE TERMINALS PROVIDED THE MEANS FOR SSA LOCAL OFFICE PERSONNEL TO ACCESS DATA STORED AND PROCESSED AT THE AGENCY'S CENTRAL COMPUTER FACILITY--DATA THEY NEED TO CARRY OUT SUCH BASIC AGENCY SERVICES AS ISSUING SOCIAL SECURITY NUMBERS, MAINTAINING EARNINGS RECORDS, AND TAKING CLAIMS FOR PROGRAM BENEFITS--A SUCCESSFUL TERMINAL REPLACEMENT WAS CRUCIAL TO THE AGENCY'S PUBLIC SERVICE MISSION. ON JUNE 10, 1980, SSA ISSUED A VENDOR SOLICITATION FOR REPLACING ITS DATA COMMUNICATIONS TERMINALS.

SSA'S CONTRACTS WITH PARADYNE:  
A PROGRESSION OF POOR  
PROCUREMENT PRACTICES

WE FOUND SERIOUS FLAWS IN SSA'S MANAGEMENT OF MAJOR PHASES OF ITS TERMINAL REPLACEMENT CONTRACT. PRIMARY AMONG THESE DEFICIENCIES WERE:

--SSA'S SOLICITATION DOCUMENT EXPRESSED THE AGENCY'S PERFORMANCE REQUIREMENTS ONLY IN TERMS OF GENERAL EQUIPMENT PERFORMANCE SPECIFICATIONS FOR INDIVIDUAL TERMINAL SYSTEM COMPONENTS. BY NOT CITING THE SPECIFIC TYPES OR VOLUMES OF OPERATIONAL WORKLOADS THAT THE TERMINAL CONFIGURATION WOULD HAVE TO PROCESS, OR THE TIME PERIODS IN WHICH PROCESSING

WOULD HAVE TO OCCUR, SSA DID NOT HAVE A BASIS FOR EVALUATING WHETHER THE VENDORS' PROPOSED EQUIPMENT WOULD MEET THE AGENCY'S NEEDS. IN ADDITION, THE SOLICITATION DID NOT REQUIRE THE VENDOR TO DELIVER SUFFICIENTLY DETAILED SOFTWARE DOCUMENTATION. SSA SUBSEQUENTLY RECOGNIZED THE NEED FOR SUCH DOCUMENTATION AND REQUIRED ITS DELIVERY (AT A POTENTIALLY HIGHER COST) AS PART OF ITS SUBSEQUENT SOLE-SOURCE SOFTWARE CONTRACT WITH PARADYNE.

--SSA DID NOT RIGOROUSLY TEST THE CAPABILITIES OF COMPETING VENDORS' PROPOSED PRODUCTS BEFORE AWARDING THE CONTRACT. INSTEAD, THE AGENCY PERMITTED EACH VENDOR TO STRUCTURE ITS OWN EQUIPMENT DEMONSTRATION AND, IF CERTAIN HARDWARE COMPONENTS WERE NOT AVAILABLE, TO SUBSTITUTE WRITTEN ANALYSIS FOR ACTUAL TESTS OF PRODUCT ABILITY TO MEET SOLICITATION REQUIREMENTS. ALL BUT ONE OF THE SIX VENDORS DEMONSTRATING PROPOSED EQUIPMENT SUBMITTED SOME WRITTEN ANALYSIS IN LIEU OF ACTUAL TESTS. THIS APPROACH COMPROMISED THE PURPOSE OF THE DEMONSTRATIONS. RIGOROUS TESTING SHOULD HAVE SHOWN THAT THE SYSTEM PARADYNE WAS OFFERING COULD NOT MEET SSA'S STATED EQUIPMENT SPECIFICATIONS.

--WHEN PARADYNE TERMINALS FAILED 10 DAYS OF ACCEPTANCE TESTING WITHOUT A SINGLE PASS, SSA AND PARADYNE SUSPENDED THIS TESTING AND NEGOTIATED A MAJOR CONTRACT MODIFICATION.

ALTHOUGH SSA'S STATED PRIMARY PURPOSE FOR TAKING THIS ACTION WAS TO CLARIFY AMBIGUOUS SPECIFICATIONS IN THE CONTRACT, THESE CHANGES LIBERALIZED THE CRITERIA FOR PASSING ACCEPTANCE TESTING, AND, IN OUR OPINION, GREATLY INCREASED PARADYNE'S CHANCES OF PASSING ACCEPTANCE TESTING.

--THE SOLE-SOURCE JUSTIFICATION THAT SSA AND THE GSA ISSUED TO SUPPORT THE SECOND PARADYNE CONTRACT AWARD WAS BASED ON ASSUMPTIONS THAT WE HAVE CONCLUDED WERE INCONSISTENT WITH THE TERMS OF THE TERMINAL REPLACEMENT CONTRACT. WE BELIEVE SSA SHOULD HAVE GIVEN GREATER CONSIDERATION TO THE ALTERNATIVE OF AWARDING THIS CONTRACT COMPETITIVELY, WHICH WOULD HAVE BETTER ENSURED THAT AGENCY NEEDS WERE SATISFIED AT THE LOWEST OVERALL COST.

SSA'S RECOMMENDATION TO BUY  
REMAINING 1,033 LEASED TERMINALS  
CONTAINS QUESTIONABLE ASSUMPTIONS  
ON TERMINAL PERFORMANCE AND USE

IN JULY 1982 SSA DECIDED TO SPEND \$15.9 MILLION TO PURCHASE 841 LEASED PARADYNE TERMINALS. ALTHOUGH THIS DECISION WAS BASED ON THE PROSPECT OF AVOIDING SUBSTANTIAL FUTURE LEASING COSTS, IT GAVE LITTLE EMPHASIS TO EQUIPMENT PERFORMANCE PROBLEMS. OUR REVIEW IDENTIFIED INDICATIONS OF LONGSTANDING TERMINAL PERFORMANCE PROBLEMS. FOR EXAMPLE, AN INTERNAL SSA STUDY SHOWED THAT FROM JULY 1981 TO JULY 1982 THE PARADYNE EQUIPMENT HAD MET CONTRACTUAL SYSTEM

AVAILABILITY REQUIREMENTS DURING ONLY 2 MONTHS AND DID NOT BEGIN TO MEET SUCH REQUIREMENTS CONSISTENTLY UNTIL APRIL 1983.

IN A MARCH 1984 ASSESSMENT OF WHETHER TO BUY THE REMAINING 1,033 LEASED PARADYNE TERMINALS, SSA FAVORED PURCHASE BECAUSE OF THE POTENTIAL FOR AVOIDING SUBSTANTIAL FUTURE LEASING COSTS. WE HAVE CONCLUDED THAT THIS ASSESSMENT HAS NOT ADEQUATELY ADDRESSED ALL PERTINENT ISSUES. ALTHOUGH SSA INDICATES THAT THE PARADYNE EQUIPMENT PERFORMANCE HAS IMPROVED SIGNIFICANTLY AND HAS BEEN MEETING CONTRACTUAL PERFORMANCE REQUIREMENTS CONSISTENTLY SINCE APRIL 1983, ITS MARCH PURCHASE ASSESSMENT RECOGNIZES THAT THE EQUIPMENT FAILURE RATE IS STILL THREE TO FOUR TIMES THAT OF SIMILAR TERMINAL INSTALLATIONS. SSA IS CONSIDERING MAKING THIS \$16.2 MILLION PURCHASE CONTINGENT ON PARADYNE'S FIRST MAKING FURTHER UPGRADES TO SELECTED SYSTEMS TO REDUCE THIS FAILURE RATE.

SSA'S ASSESSMENT, HOWEVER, ASSUMES THAT THE TERMINALS WILL REMAIN IN SSA'S LOCAL OFFICES FOR THE NEXT 3 YEARS, SAVING ABOUT \$8.3 MILLION IN LEASING COSTS. THIS ASSUMPTION IS INCONSISTENT WITH A SEPARATE TENTATIVE SSA DECISION TO REPLACE ALL PARADYNE TERMINALS IN LOCAL OFFICES AS SOON AS PRACTICABLE. DEPENDING ON HOW THIS TERMINAL REPLACEMENT STRATEGY IS IMPLEMENTED, SAVINGS RESULTING FROM PURCHASE COULD FALL TO \$1 MILLION. IN THE EVENT THAT THE PARADYNE TERMINALS IN SSA LOCAL OFFICES ARE REPLACED, AGENCY OFFICIALS APPARENTLY HAVE NOT YET DETERMINED WHETHER (OR HOW) SSA MIGHT OTHERWISE USE THIS EQUIPMENT.

SSA IS CONFRONTED WITH A DILEMMA IN DECIDING WHETHER TO PROCEED WITH PURCHASING THE LEASED TERMINALS. ALTHOUGH PURCHASE MAY ENABLE SSA TO AVOID SUBSTANTIAL FUTURE LEASE COSTS, IT WOULD CONSTITUTE BUYING EQUIPMENT THAT CONTINUES TO DISPLAY PERFORMANCE PROBLEMS.

SSA SHOULD RECONSIDER THE LEASE-PURCHASE QUESTION AFTER DETERMINING WHETHER RECOMMENDED TERMINAL UPGRADES SUBSTANTIALLY REDUCE EQUIPMENT FAILURES AND OBTAINING A CLEARER IDEA OF HOW THE PARADYNE EQUIPMENT SHOULD BE FURTHER USED.

1982 STRUCTURAL CHANGES HAVE WEAKENED INTERNAL CONTROLS OVER SSA'S DATA COMMUNICATIONS PROCUREMENT PROCESS

SSA'S DEFICIENCIES IN ACQUIRING DATA COMMUNICATIONS EQUIPMENT WERE FURTHERED BY A JULY 1982 STRUCTURAL REALIGNMENT OF SSA'S OFFICE OF SYSTEMS. THIS REALIGNMENT WEAKENED AGENCY INTERNAL CONTROLS OVER THE DATA COMMUNICATIONS PROCUREMENT PROCESS AND REDUCED THE SCOPE AND DEPTH OF TECHNICAL PROPOSAL REVIEWS FOR ALL ADP AND DATA COMMUNICATIONS PROCUREMENTS RELATED TO SSA'S SYSTEMS MODERNIZATION PROGRAM. INTERNAL CONTROL WEAKNESSES ARISING FROM THE REALIGNMENT--ESPECIALLY INADEQUATE SEPARATION OF FUNCTIONS WITHIN THE DATA COMMUNICATIONS PROCUREMENT PROCESS--INTRODUCED TOO GREAT A THREAT TO THE INTEGRITY OF SSA'S SYSTEMS PROCUREMENT PROCESS, REGARDLESS OF THE INCREASED PROCUREMENT TIMELINESS EXPECTED AS A RESULT OF THE REALIGNMENT.

THE WEAKENING OF INTERNAL CONTROLS WAS ILLUSTRATED IN TWO SSA PROCUREMENT ACTIONS SHORTLY AFTER THE JULY 1982 REALIGNMENT. IN LATE JUNE 1982, THE OFFICE RESPONSIBLE FOR TECHNICAL REVIEWS PRIOR TO THE REALIGNMENT OPPOSED THE PROPOSED PURCHASE OF 841 LEASED PARADYNE TERMINALS, CITING THE FREQUENCY OF PERFORMANCE PROBLEMS. IN 1981, THIS SAME OFFICE HAD ALSO OPPOSED AWARDING A SOLE-SOURCE SOFTWARE CONTRACT TO PARADYNE BECAUSE IT BELIEVED MUCH OF THE WORK COULD BE ACCOMPLISHED THROUGH IN-HOUSE EFFORTS AND THE BALANCE COULD BE AWARDED ON A COMPETITIVE BASIS. WITHIN A MONTH AFTER THE REALIGNMENT, BOTH ACTIONS WERE APPROVED WHEN THE RESPONSIBILITY FOR REVIEWING THEM AND RECOMMENDING THEIR APPROVAL BECAME VESTED IN THE SAME OFFICE HEAD WHO HAD ORIGINALLY AND UNSUCCESSFULLY REQUESTED THEM. FURTHER, NEITHER RECEIVED A TECHNICAL REVIEW. BEFORE THE REALIGNMENT, THE TECHNICAL REVIEW OFFICE'S RECOMMENDATION FOR APPROVAL WAS A PREREQUISITE FOR PROCUREMENTS TO PROCEED.

GSA INVOLVEMENT IN AND HHS  
OVERSIGHT OF SSA'S DATA  
COMMUNICATIONS PROCUREMENTS  
WAS INADEQUATE

IN SPITE OF THE MAGNITUDE AND IMPORTANCE OF SSA'S TERMINAL REPLACEMENT EFFORTS AND THE AGENCY'S PAST PROBLEMS IN ACQUIRING ADP AND DATA COMMUNICATIONS RESOURCES, NEITHER GSA NOR HHS MONITORED KEY PHASES OF THE TERMINAL REPLACEMENT PROCUREMENT. IN EFFECT, AFTER GSA DELEGATED PROCUREMENT AUTHORITY TO HHS, HHS REDELEGATED MANAGEMENT AND OVERSIGHT AUTHORITY TO SSA AND PROVIDED LITTLE, IF ANY, GUIDANCE TO THE AGENCY DURING THESE PROCUREMENTS.

WE BELIEVE THAT SSA'S PROBLEMS WITH THESE PROCUREMENTS DEMONSTRATES THE NEED FOR ADDITIONAL INVOLVEMENT BY BOTH GSA AND HHS IN SSA'S SYSTEMS PROCUREMENT ACTIONS. FURTHERMORE, WE BELIEVE THAT THE POOR PROCUREMENT PRACTICES SSA DISPLAYED IN ITS DATA COMMUNICATIONS CONTRACTS WITH PARADYNE ADD CREDENCE TO YOUR COMMITTEE'S CONCLUSION, AS STATED IN ITS SEPTEMBER 30, 1982 REPORT, THAT HHS NEEDS TO CLOSELY MONITOR SSA SYSTEMS PROCUREMENT ACTIONS. EFFECTIVE GSA INVOLVEMENT IN AND HHS OVERSIGHT OF SSA'S ACTIVITIES IN CONDUCTING THE MAJOR PHASES OF ITS PARADYNE PROCUREMENTS MIGHT HAVE ENABLED THE AGENCY TO AVOID SOME OF THE SERIOUS PROBLEMS IT ENCOUNTERED ON THESE ACQUISITIONS.

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IN SUMMARY, WE HAVE IDENTIFIED NUMEROUS FLAWS IN SSA'S MANAGEMENT OF ITS CONTRACTS WITH PARADYNE. THESE FLAWS, WHICH WERE INTENSIFIED BY ORGANIZATIONAL WEAKNESSES AND INADEQUATE HHS AND GSA INVOLVEMENT, INCLUDED DEFICIENT SPECIFICATIONS DEVELOPMENT, INADEQUATE PRE-AWARD TESTING DECISIONS, QUESTIONABLE CONTRACT MODIFICATIONS RESULTING FROM POST-AWARD EQUIPMENT TESTING PROBLEMS, THE PURCHASE OF PARADYNE EQUIPMENT DESPITE RECOGNIZED PERFORMANCE PROBLEMS, AND THE QUESTIONABLE USE OF SOLE-SOURCE PROCEDURES TO AWARD A SECOND CONTRACT TO PARADYNE.

OUR GREATEST CONCERN IS THAT THESE MANAGEMENT, ORGANIZATIONAL AND OVERSIGHT PROBLEMS CONTINUE TO RENDER SSA VULNERABLE TO QUESTIONABLE SYSTEMS PROCUREMENT PRACTICES. UNTIL CORRECTED, THEY WILL

CONTINUE TO THREATEN THE INTEGRITY OF SSA'S SYSTEMS PROCUREMENT PROCESS IN GENERAL AND FUTURE DATA COMMUNICATIONS PROCUREMENTS IN PARTICULAR--SUCH AS THE PLANNED ACQUISITION OF 17,000 NEW TERMINALS. SUCH PROCUREMENTS ARE CRUCIAL TO SSA'S PUBLIC SERVICE MISSION. WE THEREFORE RECOMMEND THAT THE SECRETARY OF HHS

--PROVIDE FOR GREATER DEPTH AND SCOPE IN TECHNICAL REVIEWS OF ADP AND DATA COMMUNICATIONS ACQUISITION PROPOSALS .

--REVIEW SSA'S SYSTEMS ORGANIZATIONAL STRUCTURE AND MAKE ADJUSTMENTS TO PROVIDE FOR BETTER SEPARATION OF FUNCTIONS WITHIN THE PROCUREMENT PROCESS FOR SYSTEMS MODERNIZATION-RELATED DATA COMMUNICATIONS ACQUISITIONS.

--LIMIT REQUESTS FOR FURTHER DELEGATIONS OF PROCUREMENT AUTHORITY FROM GSA FOR ACQUIRING ADP AND DATA COMMUNICATIONS RESOURCES UNTIL HHS AND GSA AGREE THAT SSA'S SYSTEMS PROCUREMENT PROCESS IS SUFFICIENTLY STRENGTHENED.

--DEFER FURTHER CONSIDERATION OF THE AGENCY PROPOSAL TO SPEND \$16.2 MILLION TO PURCHASE THE REMAINING LEASED PARADYNE TERMINALS UNTIL EQUIPMENT FAILURES HAVE BEEN REDUCED TO A RATE APPROXIMATING THAT EXPERIENCED BY SIMILAR SYSTEMS AND THE AGENCY HAS A CLEARER IDEA OF WHAT FURTHER USE SHOULD BE MADE OF THE PARADYNE EQUIPMENT AT SSA.

--ENSURE THAT THE POOR PROCUREMENT PRACTICES USED ON THE PARADYNE ACQUISITIONS ARE NOT REPEATED ON THE UPCOMING 17,000-

PLUS TERMINAL PROCUREMENT BY CLOSELY REVIEWING THE VALIDITY OF THE PROCUREMENT JUSTIFICATION, PERFORMING AN INDEPENDENT, IN-DEPTH REVIEW OF THE TECHNICAL SPECIFICATIONS CONTAINED IN THE PENDING SOLICITATION AND USING APPROPRIATELY STRINGENT PERFORMANCE VALIDATION TECHNIQUES IN CONDUCTING PREAWARD AND ACCEPTANCE TESTS.

WE FURTHER RECOMMEND THAT THE SECRETARY DIRECT THE ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET TO ACTIVELY MONITOR ALL PHASES OF ONGOING AND FUTURE SSA PROCUREMENT ACTIONS REQUIRING HHS APPROVAL AND TO MONITOR SSA'S RECONSIDERATION OF WHETHER TO BUY THE REMAINING LEASED PARADYNE EQUIPMENT.

MR. CHAIRMAN, THIS CONCLUDES MY REMARKS. FURTHER DISCUSSION OF THE ISSUES I HAVE PRESENTED THIS MORNING CAN BE FOUND IN OUR REPORT TO YOU DATED JULY 9, 1984.

WE WILL BE GLAD TO ANSWER ANY QUESTIONS YOU OR OTHER MEMBERS MAY HAVE.