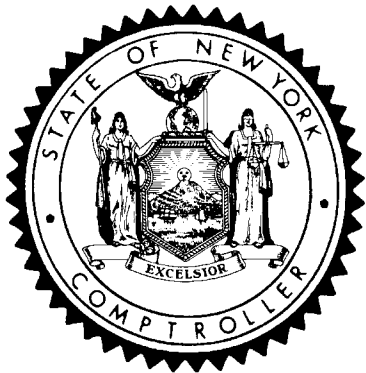


State of New York
Office of the State Comptroller
Division of Management Audit
and State Financial Services

**OFFICE OF CHILDREN AND FAMILY
SERVICES**

CONNECTIONS SYSTEM EQUIPMENT

REPORT 98-S-61



H. Carl McCall
Comptroller



State of New York Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 98-S-61

Mr. John A. Johnson
Commissioner
Office of Children and Family Services
Capital View Office Park
52 Washington Street
Rensselaer, NY 12144

Dear Mr. Johnson:

The following is our report on the Office of Children and Family Services' CONNECTIONS System Equipment.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article II, Section 8 of the State Finance Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller
Division of Management Audit
and State Financial Services*

February 29, 2000

Executive Summary

Office of Children and Family Services CONNECTIONS System Equipment

Scope of Audit

The Office of Children and Family Services (OCFS) administers New York State's child welfare programs. In 1995, the former Department of Social Services began developing an automated, integrated information system known as CONNECTIONS. In 1997, the Department of Social Services was abolished, and OCFS became responsible for CONNECTIONS. When the system is fully implemented, OCFS expects that CONNECTIONS will be a single system for recording and collecting child protective, preventive, foster care and adoption service information statewide, "connecting" all 58 local social services districts and voluntary organizations with OCFS.

The Federal government pays 75 percent of system development costs, including the first phase of equipment purchases and installation. The State pays for the remaining costs. The first phase of the equipment installation involved the purchase and installation of more than 14,500 Pentium personal computers, 2,478 printers, and a network of 296 file servers at more than 800 sites around the State. By January 31, 1998, costs totaled \$100.7 million, including about \$50 million for equipment and the remaining for installation, software training, design changes, record conversions and other non-equipment items.

Our audit addressed the following questions about OCFS's CONNECTIONS system equipment for the period April 1, 1996 through September 30, 1999:

- ! Does OCFS have accurate and reliable CONNECTIONS equipment inventory records, as well as adequate internal controls over this equipment?
- ! Is CONNECTIONS equipment that was purchased for specific locations in the City of New York accounted for?

Audit Observations and Conclusions

We found that CONNECTIONS equipment is missing from some City of New York (NYC) locations and cannot be accounted for. We also found that CONNECTIONS inventory records are not accurate and reliable, and that OCFS should strengthen internal controls over this equipment.

OCFS officials told us that they purchased and installed most of the CONNECTIONS equipment in a very short period of time to obtain the favorable 75 percent Federal reimbursement rate. As such, controls over receiving, installing and recording of CONNECTIONS equipment were not as strong as they should have been. For example, when we compared a listing of CONNECTIONS equipment serial numbers provided by the vendor to OCFS records, we found there were 3,157 equipment serial numbers

listed on OCFS records, but not listed on the vendor's file. There were also 2,729 equipment serial numbers items listed by the vendor as installed, but not on OCFS's inventory. The unreliability of these records contributed to the problems we identified. (See pp. 5-7)

OCFS gave us information on 57 CONNECTIONS computers, costing more than \$164,000, that have been reported as missing or stolen by the local districts or voluntary agencies. However, OCFS did not report the losses to the State Comptroller's Office, as required. (See p. 6)

We selected a random statistical sample of desktop and laptop computers, file servers and printers to determine whether we could locate them. We were unable to verify the location of 15 of the 159 equipment items in our sample (9.7 percent). Based on the results of our sample, we project that between 949 and 2,301 equipment items cannot be found in the location recorded on OCFS's inventory records. We estimate that the value of this equipment is between \$1.6 million and \$7.3 million. (See pp. 9-10)

In addition to our physical observations, we attempted to electronically verify the existence of equipment in our sample. This was done by sending an electronic signal over the network to determine if a specific equipment item was attached to the network. By doing this, we were able to determine that 7 of the 15 items that we were unable to locate physically were attached to the network. Based on the fact that we could not physically or electronically locate eight items, we prepared an additional projection to determine whether OCFS's inventory records were valued correctly. We determined that the value of OCFS's inventory is not materially misstated. (See p. 10)

Locations in NYC accounted for six of the eight equipment items that we could not find from our original statistical sample. As a result, we performed additional inventory counts to help us determine the extent of missing CONNECTIONS equipment at selected NYC locations. Initially, we were unable to find 86 items (10 percent), valued at \$275,000, of the 887 items that we tried to locate. Subsequently, NYC officials located 40 of the 86 items which we were able to confirm. Accordingly, it appears that the remaining equipment has been lost or stolen. (See pp. 10-12)

Comments of OCFS Officials

OCFS officials agreed with all of the recommendations in this report and indicated actions that they either have taken or are taking to implement them. Regarding the equipment items missing from NYC locations, OCFS officials stated that they have either located or confirmed the disposition of almost all of the items. OCFS officials indicated that several of the items they found had been vandalized. OCFS officials also advised that they will obtain reimbursement from ACS for any missing items.

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Introduction

Background

The Office of Children and Family Services (OCFS) administers New York State's child welfare programs, which protect children against abuse and neglect and provide temporary and permanent homes for children in the State's custody. In 1995, the former Department of Social Services began developing an automated, integrated information system known as CONNECTIONS. In 1997, the Department of Social Services was abolished, and OCFS became responsible for CONNECTIONS. When the system is fully implemented, OCFS expects that CONNECTIONS will be a single system for recording and collecting child protective, preventive, foster care and adoption service information statewide. It "connects" all 58 local social services districts and voluntary organizations with OCFS and will give users access to OCFS's other information systems for child welfare.

CONNECTIONS is installed at OCFS, its regional offices, 58 local social services districts and 244 voluntary/contract organizations throughout the State. The Federal government pays 75 percent of system development costs, including the first phase of equipment purchases and installation. The State pays for the remaining costs. OCFS oversees the distribution and management of CONNECTIONS equipment at the local districts and voluntary organizations.

The first phase of the equipment installation, which was completed in September 1997, involved the purchase and installation of more than 14,500 Pentium personal computers, 2,478 printers, and a network of 296 file servers at more than 800 sites around the State. (See Exhibit A for the cost of CONNECTIONS equipment installed by county.) This makes CONNECTIONS one of the largest network installations of its type, in the world. By January 31, 1998, costs totaled \$100.7 million, including about \$50 million for equipment and the remaining for installation, software training, design changes, record conversions and other non-equipment items. Supplemental CONNECTIONS equipment purchases can occur under the contract, but do not qualify for the 75 percent Federal reimbursement. Such purchases may be eligible for 50 percent Federal reimbursement and 25 percent State reimbursement, with the remaining costs paid by either the local districts or the voluntary organizations.

Audit Scope, Objectives and Methodology

We reviewed the controls over CONNECTIONS equipment for the period of April 1, 1996 through September 30, 1999. The objectives of this financial-related audit were to (1) evaluate the internal controls over this equipment, (2) determine the accuracy and reliability of CONNECTIONS equipment inventory records, and (3) determine whether CONNECTIONS equipment that was purchased for selected City of New York (NYC) locations could be accounted for. To accomplish these objectives, we selected a random statistical sample of CONNECTIONS equipment and attempted to verify its location through physical observations and electronic verification. We used an outside consultant to assist in developing the sampling methodology and to help us evaluate the sampling results. We also identified actual CONNECTIONS equipment purchases for five locations in NYC and attempted to find this equipment through physical observations. In addition, we reviewed policies and procedures for equipment management, interviewed OCFS officials, and analyzed equipment inventory records.

We conducted our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those operations that are included within our audit scope. Further, these standards require that we understand OCFS's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by agency management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to audit. This approach focuses our audit efforts on those operations identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not focus on activities that may be functioning properly.

Internal Control and Compliance Summary

We identified internal control weaknesses in OCFS's equipment installation and record keeping processes. These weaknesses are described in the section of this report entitled "Controls Over CONNECTIONS Equipment."

We also identified non-compliance with requirements of the New York State Accounting System User Procedure Manual. This non-compliance is described in the section of this report entitled "Controls Over CONNECTIONS Equipment."

Response of OCFS Officials

Draft copies of this report were provided to OCFS officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

In responding to the draft report, OCFS officials agreed with all of the recommendations, and indicated actions that they either have taken or are taking to implement them.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Children and Family Services shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Controls Over CONNECTIONS Equipment

A fundamental objective of an internal control system is to safeguard assets from theft, loss or misuse. Good equipment inventory controls require that:

- ! a serial number or inventory number should identify each item;
- ! inventory records should be maintained for each item of equipment; and
- ! periodic physical inventories should be taken by employees not responsible for custody of the equipment.

OCFS officials told us that they purchased and installed most of the CONNECTIONS equipment in a very short period of time to obtain the favorable 75 percent Federal reimbursement rate. As such, controls over receiving, installing and recording of CONNECTIONS equipment were not as strong as they should have been, and may have contributed to the inventory record inaccuracies that we identified.

Local districts and voluntary agencies received delivery of most CONNECTIONS equipment directly from the vendor. Initially, they reported equipment installation to OCFS using an on-line registration system. The system was supposed to collect and store the serial number and other relevant data in a central inventory file. OCFS had problems with the on-line registration and discontinued its use. OCFS officials estimate that half the equipment records were captured using this method. OCFS did not require the local districts and voluntary agencies to complete a receiving report or submit supporting documentation for establishing, maintaining, and updating inventory records. As a result, OCFS relied on vendors' reports or data registered on line to create inventory records without an independent verification to ensure its reliability.

Without reliable inventory records, management may not be able to identify lost or stolen equipment. Recording the correct serial numbers of the equipment on the inventory records is necessary for a reliable inventory system. During our audit, we determined whether the CONNECTIONS equipment inventory records were reliable by comparing a listing of equipment serial numbers provided by the vendor to OCFS records. We found there were 3,157 equipment serial numbers listed on OCFS records, but not listed on the vendor's file. There were also 2,729 serially-numbered equipment items listed by the vendor as installed, but not on OCFS's inventory. Our review found that the total number of equipment items listed as sold by the vendor supports the number of items listed on OCFS's inventory, but there are discrepancies in the serial numbers listed on the files.

OCFS officials said these discrepancies occurred because of weaknesses in the phase one installation process. They said that sometimes the vendor would not install a piece of equipment designated for installation at a specific site due to technical problems. The vendor eventually installed a replacement, but OCFS never recorded the correct serial number on the inventory, but instead used the serial number of the originally-intended item. In other cases, management believes that they did not enter the correct serial numbers into the equipment inventory system due to data entry errors. OCFS officials told us they are currently working with the vendor to reconcile these discrepancies in the inventory records. They have also implemented procedures that require receiving reports for supplemental CONNECTIONS equipment purchases and installations.

OCFS officials also gave us information concerning 57 CONNECTIONS computers, costing more than \$164,000, that have been reported to OCFS as missing or stolen by the local districts or voluntary agencies. Most of this equipment was in the NYC metropolitan area. Although aware of the missing equipment and discrepancies in the inventory records, managers have not conducted a physical inventory of CONNECTIONS equipment at the various locations throughout the State. In addition, OCFS has not reported the losses to the State Comptroller's Office, as required by Volume XI, Section 7.0200 of the New York State Accounting System User Procedure Manual.

Recommendations

1. Periodically conduct physical inventories of CONNECTIONS equipment. This could be done by taking a statistical sample of equipment items for verification or by selecting certain districts for inventory review. Update inventory records as needed.

(OCFS officials responded that they intend to conduct limited physical inventories on an exception basis. OCFS officials also stated that they have investigated more sophisticated network management tools to better identify and track devices on the network. They plan to use reports and alerts from these tools to appropriately direct resources to identified problem areas.)

2. Establish and update equipment inventory records based on internal receiving and installation reports that are independent of the equipment vendor.

(OCFS officials responded that they have modified the process to establish and update equipment inventory records based on internal receiving and installation reports.)

3. Reconcile existing discrepancies and errors in the equipment inventory records.

(OCFS officials agreed and stated that discrepancies and errors are now being reconciled. They believe that the current ordering system should correct many of the past problems with discrepancies.)

4. Report all instances of lost or stolen equipment to the State Comptroller's Office, as required.

(OCFS officials responded that they will establish procedures to provide for the prompt reporting of all instances of lost or stolen equipment to the State Comptroller's Office.)

Accountability For CONNECTIONS Equipment

OCFS maintains a database of computerized inventory records for CONNECTIONS equipment. As of October 1998, the database included 20,671 equipment items with a total cost of \$50,728,173. These equipment inventory records include information on purchase and installation dates, location, serial number, unit ID number and cost. We performed tests of OCFS' CONNECTIONS inventory records and found that they did not accurately reflect the location of about 10 percent of the equipment. We also found that equipment in selected NYC locations was missing and could not be accounted for.

Accuracy of Equipment Records

Managers need inventory records to help control and safeguard their assets. Without accurate equipment inventory records, managers may not be able to:

- ! locate equipment when necessary for repairs and maintenance,
- ! accurately determine whether equipment has been over or under allocated to certain areas or units,
- ! determine whether equipment in specific units is being under used, and
- ! easily identify equipment that has been lost or stolen.

We selected a random statistical sample of CONNECTIONS equipment items to determine whether OCFS's inventory records have accurate information on equipment location. To focus on the more valuable equipment items, we limited our sample to equipment items valued at \$1,000 or more. A population of 16,818 equipment items in OCFS's inventory met this criterion. This equipment consisted of desktop and laptop computers, files servers and printers, and had a recorded value of \$47,561,918. Using a 90 percent confidence level, our sample size was 159 items.

We found that OCFS's equipment inventory records are not accurate regarding location. Fifteen of the 159 items in our sample could not be found at the location recorded on the inventory records. Based on our statistical sample, we estimate that inventory records for 1,625 equipment items (9.7 percent) are not accurate. Therefore, with 90 percent confidence, we project that between 949 and 2,301 items cannot be found in the location recorded on OCFS's inventory records. We estimate that the value of this equipment is between \$1.6 million and \$7.3 million. In addition to our physical observations, we also attempted to electronically verify the existence of equipment in our sample. Computer equipment is assigned a network name when it is attached to the CONNECTIONS network. An electronic signal can be sent over the network to determine if a specific equipment item

is attached to the network at that time. OCFS management uses the equipment's serial number when assigning a network name to desktop and laptop computers. This allowed us to use the network to electronically determine if the desktops and laptops that we could not find were attached to the network. While electronic verification provides some assurance that equipment items exist and are attached to the network, it does not provide information concerning the actual equipment location.

We were able to electronically verify that 7 of the 15 items we could not find were attached to the network. The remaining eight items could not be verified because they were equipment types that are not named based on their serial number or were not attached to the network at the time of our test. Based on the fact that we could not physically or electronically locate eight items, we prepared an additional projection to determine whether OCFS's inventory records were valued correctly. We determined that OCFS's inventory value is not materially misstated.

Missing Equipment

Locations in NYC accounted for six of the eight equipment items that could not be found as part of our original statistical sample. As a result, we performed additional inventory counts to help us determine whether CONNECTIONS equipment could be accounted for at selected NYC locations. These locations included St. Vincent's Services (56 Bay Street, Staten Island) and the NYC Administration for Children's Services (ACS) offices at:

- C 192 East 151st Street (Bronx)
- C 345 Adams Street (Brooklyn)
- C 150 William Street (Manhattan)
- C 92-31 Union Hall Street (Queens)

We obtained and reviewed all CONNECTIONS equipment invoices for these sites to identify the specific equipment items that should have been at each location. We also traced equipment invoices for these sites to payments to confirm that the equipment was purchased. We restricted our testing to items costing \$1,000 or more. We did a complete inventory count of equipment items at four of the locations. We reduced our testing at 150 William Street to a random sample of 150 items because of the large number of equipment items located there. Overall, this additional testing resulted in a sample of 887 equipment items valued at \$2.3 million.

Our physical counts identified missing CONNECTIONS equipment and poor inventory controls at NYC ACS locations. These poor controls, which include inadequate inventory records, made it difficult and time consuming for ACS officials and us to attempt to locate this equipment. We used information from OCFS records, ACS records and the CONNECTIONS network management system when trying to find these items to identify any

and all possible equipment locations. We started this review in July 1999. Throughout August and September we provided ACS with information identifying unaccounted for items so they could assist us in locating them. By October 1999, even with the assistance of ACS staff, we were still unable to find 86 (10 percent) of the 887 items in our sample. These 86 items had a value of \$275,000. In November 1999, OCFS officials responded to our preliminary findings and told us that they had found 69 of the 86 items that previously could not be found. We did additional site visits and verified the location of 40 of the 69 items. One item (a laptop computer) was identified as stolen. Thus, currently 46 items valued at about \$128,000 cannot be located. This amount does not include associated installation charges and software costs. The following chart summarizes the number and value of CONNECTIONS equipment items that we could not find.

Location Per Inventory Records	Items Not Found	Total Value
192 East 151 st Street - Bronx	4 of 301	\$14,944
345 Adams Street - Brooklyn	4 of 141	24,148
150 William Street - Manhattan	26 of 150	52,948
92-31 Union Hall Street - Queens	12 of 287	36,416
56 Bay Street - Staten Island	0 of 8	0
Total	46 of 887	\$128,456

ACS officials informed us that they are constantly moving CONNECTIONS equipment because of organizational changes. They believe that the missing equipment we identified results from such equipment transfers. However, given the inability of ACS officials and us to locate this equipment, it appears that this missing equipment has been lost or stolen. We provided OCFS officials with details regarding the equipment items we could not locate, for their follow-up.

Recommendation

5. Investigate the equipment items that could not be located during our audit. Determine why these items cannot be located and update the inventory records as necessary.

(OCFS officials responded that they attempted to electronically locate each of the items we identified as missing from the NYC ACS. ACS has also continued to try and locate these items. As a result, OCFS officials stated that they have either located or confirmed the disposition of almost all of the items. OCFS officials indicated that several of the items they found had been vandalized. OCFS officials also advised that they will obtain reimbursement from ACS for any missing items.)

**Cost of CONNECTIONS Equipment Installed by County
as of October 1998**

County	Purchase Cost
Albany	\$4,922,381
Allegany	100,313
Bronx	3,347,572
Brooklyn	6,651,334
Broome	504,038
Cattaraugus	232,906
Cayuga	147,108
Chautauqua	331,766
Chemung	267,388
Chenango	92,261
Clinton	210,802
Columbia	186,338
Cortland	181,239
Delaware	212,530
Dutchess	427,682
Erie	1,890,249
Essex	97,484
Franklin	139,787
Fulton	144,219
Genesee	219,367
Greene	96,145
Hamilton	23,473
Herkimer	138,931
Jefferson	256,190
Lewis	54,521
Livingston	145,256
Madison	124,393
Manhattan	9,794,195
Monroe	1,758,172
Montgomery	106,914
Nassau	1,648,308
Niagara	418,768
Oneida	482,919
Onondaga	1,371,396
Ontario	155,091
Orange	491,939

County	Purchase Cost
Orleans	102,689
Oswego	361,056
Otsego	186,760
Out of State	153,898
Putnam	117,387
Queens	3,207,555
Rensselaer	347,000
Rockland	638,027
Saratoga	215,548
Schenectady	523,358
Schoharie	120,029
Schuyler	42,383
Seneca	108,061
St. Lawrence	204,492
St. Regis Tribe	14,500
Staten Island	614,838
Steuben	238,035
Suffolk	1,555,577
Sullivan	231,732
Tioga	148,744
Tompkins	245,141
Ulster	488,140
Warren	122,865
Washington	150,902
Wayne	186,353
Westchester	2,612,037
Wyoming	104,198
Yates	44,319
Vendor location	55,226
Unclassified *	213,948
Total	\$50,728,175

* Unclassified represents items assigned to an unknown county.

Major Contributors to This Report

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**New York State
Office of
Children & Family
Services**

George E. Pataki
Governor

John A. Johnson
Commissioner

February 10, 2000

FAX AND MAIL

Mr. William P. Challice, Audit Director
NYS Office of the State Comptroller
A. E. Smith State Office Bldg.
Albany, New York 12236

Re: OSC Audit #98-S-61
CONNECTIONS System Equipment

Dear Mr. Challice:

The Office of Children and Family Services (OCFS) has reviewed the above-cited draft audit report. The attached response was developed by the Human Services Application Services Center (HSASC), which is the responsible agent of OCFS having technical expertise to manage the distribution and inventory of all OCFS CONNECTIONS computer equipment, and incorporates comments from the City of New York Administration for Children's Services (ACS).

Thank you for your efforts and cooperation during the audit process.

Sincerely,

John A. Johnson

cc: K. Robinson
file



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Response to OSC Draft CONNECTIONS System Equipment Audit (98-S-061)

Recommendations

1. ***Periodically conduct physical inventories of Connections equipment. This could be done by taking a statistical sample of equipment items for verification or by selecting certain districts for inventory review. Update inventory records as needed.***

In response to our questioning the cost effectiveness of conducting periodic system-wide physical inventories, which we project could cost in excess of \$500,000 per occurrence, OSC revised their recommendation to statistical sampling. This endorses our suggestion, which we intend to initiate, to conduct limited physical inventories on an exception basis. In addition, we have investigated more sophisticated network management tools which would include asset management components to better identify and track the devices on the network, including the ability to alert when items go off-line. We would use reports and alerts from these tools to appropriately direct our resources toward identified problem areas. As part of its long term planning effort, the HSASC has initiated activity to plan the implementation of the Tivoli Suite of management products to provide this functionality.

2. ***Establish and update equipment inventory records based on internal receiving and installation reports that are independent of the equipment vendor.***

We concur. In fact, subsequent to the initial rollout of Connections equipment, the HSASC modified the process to establish and update equipment inventory records based on the ordering system which provides internal receiving and installation reports that verify the information provided by the equipment vendor.

3. ***Reconcile discrepancies and errors in the equipment inventory records.***

We concur. Discrepancies and errors are now being reconciled as they are identified. The current ordering system should correct many of the past problems with discrepancies.

4. ***Report all instances of lost or stolen equipment to the State Comptroller's Office, as required.***

We concur. OCFS will establish procedures to provide for the prompt reporting of all instances of lost or stolen equipment to the OSC.

5. ***Investigate the equipment items that could not be located during our audit. Determine why these items cannot be located and update the inventory records as necessary.***

The HSASC attempted to electronically determine the presence (ping) of each of the items identified as missing from the OSC audit of the City of New York Administration for Children Services (ACS) devices at 5 NYC locations. At the same time, ACS continued the inventory identification activity initiated at the request of OCS, supplemented by an HSASC review. The results are indicated on the enclosed modifications to the detail that was used to build the summary table on page 9 of the audit report. We were able to confirm either the location or disposition of all but 7 (< 1%) of the 887 items selected as part of the original sample. Specifically, we located or determined the disposition of:

- 30 of 31 desktops (97%)
- 31 of 34 laptops (91%) - the disposition of the remaining 3 laptops is still under investigation.
- 16 of 19 printers (84%)
- 1 of 1 switch (100%)

-
- 1 of 1 server (100%)

The remaining 7 devices represent a value of \$20,866 which is less than 1% of the total value of \$2,311,773 of the items in the original inventory sample. If any items are missing, OCFS will obtain reimbursement from ACS for any replacement devices per the existing procedure.

The inventory did correctly reflect that several of the devices listed under the audit at 92-31 Union Hall Street (Queens) had been relocated to other ACS offices where they were successfully pinged. Where discrepancies are found, the inventory will be updated to reflect any changes of location. In addition, reminders will continue to be sent to agencies indicating the need to alert us of moves.