



Region II
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26 Federal Plaza
New York, NY 10278

February 12, 2003

Report No. A-02-01-02001

Mr. John A. Johnson
Commissioner, Office of Children and Family Services
Department of Family Assistance
52 Washington Street
Rensselaer, New York 12144

Dear Mr. Johnson:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services final report entitled "Review Of Costs Claimed By The New York State Department of Family Assistance, Office Of Children And Family Services For Equipment Provided By IBM And MicroAge Under Phase II Of The CONNECTIONS Project." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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Page 2 - Mr. John A. Johnson

To facilitate identification, please refer to report number A-02-01-02001 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Timothy J. Horgan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Mary Ann Higgins
Northeast Hub Director
Department of Health and Human Services
Administration for Children & Families
26 Federal Plaza, Room 4114
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF COSTS CLAIMED BY
THE NEW YORK STATE
DEPARTMENT OF FAMILY ASSISTANCE
OFFICE OF CHILDREN AND FAMILY SERVICES
FOR EQUIPMENT PROVIDED BY
IBM AND MICROAGE
UNDER PHASE II OF
THE CONNECTIONS PROJECT**



JANET REHNQUIST
Inspector General

FEBRUARY 2003
A-02-01-02001

Office of Inspector General

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.



EXECUTIVE SUMMARY

Background

In 1994, the New York State Department of Family Assistance, (formerly the New York State Department of Social Services) Office of Children and Family Services (NYSOCFS) began developing and implementing a Statewide Automated Child Welfare Information System (SACWIS), known as CONNECTIONS, to collect and transmit foster care and adoption assistance case management data to the Federal Government. The CONNECTIONS system was to be developed in two phases. In Phase I, existing mainframe systems were to be enhanced with additional functionality to provide a secure infrastructure upon which to build a comprehensive system. In Phase II, the new hardware and software of the CONNECTIONS system was to be installed and put into operation. The hardware, software and related services were provided by International Business Machines Global Services (a subsidiary of International Business Machines Corporation that was formerly known as Integrated Systems Solutions Corporation and is referred to in this report as IBM), Accenture (formerly Anderson Consulting LLP), and MicroAge, Inc. (MicroAge).

In August 1999, the Administration for Children and Families (ACF) requested that we perform a financial review of claims submitted by NYSOCFS for the CONNECTIONS project. Previously, under CIN: A-02-99-02008, we reported the results of our review of costs claimed under Phase I of the CONNECTIONS project.

During January 2001, we began a review of equipment and related costs provided by IBM and MicroAge, which were claimed for federal reimbursement by NYSOCFS under Phase II of the CONNECTIONS project. During the period March 31, 1996 through September 30, 2000, NYSOCFS claimed \$74,153,379 (federal share \$53,442,293) for equipment and related costs provided by IBM and MicroAge. The claimed costs included the purchase price of the equipment and related software costs, installation charges, site preparation, maintenance charges and finance charges.

Objectives

The objectives of our review were:

- To identify costs claimed by NYSOCFS for equipment, provided to preventive services only agencies, which should be removed from the Title IV-E SACWIS claims for federal reimbursement based on a prior agreement between NYSOCFS and ACF.

- To determine if NYSOCFS implemented property management standards to ensure that inventory records for equipment purchased under the CONNECTIONS project are accurate and reliable.
- To determine if NYSOCFS claims for CONNECTIONS equipment and related costs were reasonable and allowable in accordance with the terms of the contract between NYSOCFS and IBM.

Summary Of Findings

In summary, our audit determined that the majority of costs claimed for CONNECTIONS equipment and related costs were reasonable and consistent with the terms of the contract between NYSOCFS and IBM. We found that adjustments to the claimed costs were warranted for \$947,057 (federal share \$686,817) of equipment and related costs that should not have been claimed to the CONNECTIONS project as well as \$3,947,353 (federal share \$2,835,220) of equipment and related costs, which could not be properly identified or located. In addition, we determined that equipment maintenance costs of \$32,882 was improperly claimed at an enhanced federal financial participation rate and improvements are needed in equipment management.

We identified costs claimed by NYSOCFS for 430 pieces of equipment provided to preventive services only agencies. This equipment, totaling \$947,057 (federal share \$686,817), should be removed from the Title IV-E SACWIS claims for federal reimbursement based on a prior agreement between NYSOCFS and ACF.

We found that NYSOCFS has taken steps to improve the accuracy and reliability of the CONNECTIONS inventory management system. However, our review identified some discrepancies between the total number of equipment items per vouchers submitted by IBM and MicroAge to NYSOCFS and the total number of equipment items per the inventory list maintained by the New York State Office for Technology (NYSOFT).

Based on our review, we determined that NYSOCFS was unable to reconcile 370 pieces of equipment, totaling \$940,888 (federal share \$671,792), purchased from IBM and MicroAge to inventory records maintained by NYSOFT. Since this equipment was not recorded on the inventory list, NYSOCFS was unable to document its current location or condition or demonstrate that it was ever received or used for activities that benefit the CONNECTIONS project as required by Office of Management and Budget (OMB) Circular A-87.

In addition, our review of 300 statistically selected pieces of equipment listed on the NYSOFT inventory showed that 70 pieces were found at a different location than the one shown on the inventory. Based on an extrapolation of the statistical sample, we estimate that the location of 3,820 pieces of CONNECTIONS equipment is improperly recorded on NYSOFT's inventory records. 45 CFR 92.32(d)(1) requires states to maintain an equipment inventory management system, which includes the location of the equipment.

We were advised by NYSOFT officials that this deficiency in their property management system occurred due to inadequate procedures for updating the inventory records to reflect the movement of equipment after it had been installed.

Our review also revealed that 33 pieces of equipment in our statistical sample of 300 pieces of equipment listed on the NYSOFT inventory could not be located. As a result, NYSOCFS was unable to demonstrate that this equipment was used for activities that benefit the CONNECTIONS project as required by OMB Circular A-87. Based on an extrapolation of the statistical sample, we estimate that NYSOCFS cannot document the current location or condition of 1,905 pieces of equipment, with an estimated value of \$3,006,465 (federal share \$2,163,428).

Finally, we determined that NYSOCFS improperly claimed equipment maintenance costs for federal reimbursement at the enhanced 75 percent rate. The difference between the federal share of the claim at 75 percent versus the allowable federal share at 50 percent is \$32,882.

During our review, we became aware that the New York State Office of State Comptroller (NYSOSC) had performed a review of CONNECTIONS equipment and identified similar deficiencies in controls over the CONNECTIONS inventory management system. Specifically, reconciling errors in the equipment inventory records and equipment that was missing or not found at the location on the inventory listing. The NYSOSC provided recommendations for correcting these deficiencies, which NYSOCFS concurred with. We followed up with NYSOCFS to determine what actions they have taken, or plan to take, to correct the deficiencies and have made recommendations to address any issues that have not been fully resolved.

Recommendations

We recommend that:

- NYSOCFS reduce their claim by \$947,057 (federal share \$686,817). This represents the cost of 430 pieces of equipment, provided to preventive services only agencies, which should be removed from the Title IV-E SACWIS claims for federal reimbursement based on a prior agreement between NYSOCFS and ACF.
2. If NYSOCFS is unable to reconcile the 370 pieces of equipment and provide evidence that this equipment was used for CONNECTIONS, they should reduce their claim by \$940,888 (federal share \$671,792), which represents the purchase price, related software costs, installation charges and maintenance charges associated with this equipment.

3. NYSOCFS continue to reconcile existing discrepancies and errors in the equipment inventory records and provide assurance to ACF that the equipment inventory records have been corrected.
4. If NYSOCFS is unable to locate the 33 missing sample items and provide evidence that this equipment was used for CONNECTIONS, they should reduce their claim by \$3,006,465 (federal share \$2,163,428), which represents the lower limit of the 90 percent confidence interval.
5. NYSOCFS revise their procedures for updating inventory records to reflect the movement of CONNECTIONS equipment after it has been installed.
6. NYSOCFS monitor the progress of their planned improvements to the CONNECTIONS inventory management system and provide assurance to ACF that action has been taken to address missing equipment and that the location of the equipment has been updated.
7. NYSOCFS reduce the federal share of equipment costs claimed by \$32,882, which represents the difference between the federal share of the claim at 75 percent versus the allowable federal share at 50 percent.

NYS Comments

The full text of NYSOCFS comments on our draft report are contained in Appendix D. With respect to the four recommendations that relate to fiscal issues, NYSOCFS concurred with refunding expenditures, totaling \$947,057 (federal share \$686,817), claimed for equipment provided to preventive services only agencies but felt the recommendation constituted a recognition of a previous agreement between NYSOCFS and ACF, not an audit finding. The NYSOCFS did not concur with our recommendation that they reduce their claim for unreconciled equipment, totaling \$940,888 (federal share \$671,792), because the errors found represent technical record keeping errors. With regard to the projected overpayment related to missing equipment, NYSOCFS noted that it had found additional pieces of equipment and requested that the report be appropriately adjusted. Finally, NYSOCFS agreed to reduce the federal share of equipment maintenance costs claimed by \$32,882.

With respect to the three procedural recommendations, the State indicated that it was actively working to improve the accuracy and reliability of the CONNECTIONS inventory management system. The state also committed to keeping ACF apprised of its progress in improving controls over CONNECTIONS equipment.

OIG Response

With respect to the overpayments identified in the report, we note that the state's comments did not contain detailed challenges to the factual accuracy of our findings. Rather the response indicated that additional information was accumulated and provided for our review. In this regard, we evaluated all additional information that was provided to us and made appropriate adjustments to the final report.

With respect to the procedural recommendations, we are pleased that NYSOCFS officials have expressed an interest in improving the accuracy and reliability of the CONNECTIONS inventory management system. However, we note that the state comments do not adequately address the issue of tracking CONNECTIONS equipment that is moved subsequent to installation. Consequently, CONNECTIONS inventory records will not reflect, in a timely or accurate manner, situations where equipment was lost, stolen, moved or sent for repair.

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INTRODUCTION

Background

The Title IV-E Foster Care and Adoption Assistance program provides federal funds to states for the care of eligible dependent children that are placed in foster care and for abused or neglected children who are placed in foster homes. In addition, Title IV-E provides federal funds for adoption assistance payments for certain children with special needs. For many years, concerns had been raised about the lack of information available on children receiving foster care and adoption assistance services. To address some of these concerns, Congress amended Title IV-E to require the Federal Government to institute a foster care and adoption assistance data collection system. As a result, requirements for an Adoption and Foster Care Analysis and Reporting System (AFCARS) were implemented under regulations at 45 CFR 1355.40.

There were two components to the AFCARS, the state component and the federal component. The state component consisted of the information system used to collect and transmit foster care and adoption assistance case management data to the Federal Government. The federal component consisted of the information system used to receive and process the data, check the data for compliance and quality, and generate various reports.

Some states opted to comply with AFCARS requirements by developing a Statewide Automated Child Welfare Information System (SACWIS) to collect and transmit foster care and adoption assistance case management data to the Federal Government. The Omnibus Budget Reconciliation Act of 1993 and Public Law 104-193 provided federal financial participation (FFP) for the planning, development and installation of such systems. Eligible SACWIS costs incurred prior to September 30, 1997 were reimbursed at an enhanced FFP rate of 75 percent, while eligible SACWIS costs incurred after September 30, 1997 were reimbursed at 50 percent FFP.

In 1994, the New York State Department of Family Assistance, (formerly the New York State Department of Social Services) Office of Children and Family Services (NYSOCFS) began developing and implementing a SACWIS called CONNECTIONS. The CONNECTIONS system was intended to give child welfare workers state of the art computer equipment and software to support and improve their efforts on behalf of children in foster care and their families. The CONNECTIONS system was to be developed in two phases. In Phase I, existing mainframe systems were to be enhanced with additional functionality to provide a secure infrastructure upon which to build a comprehensive system. In Phase II, the new hardware and software of the CONNECTIONS system was to be installed and put into operation. The hardware, software and related services were provided by International Business Machines Global Services (a subsidiary of International Business Machines Corporation that was formerly known as Integrated Systems Solutions

Corporation and is referred to in this report as IBM), Accenture (formerly Anderson Consulting LLP), and MicroAge, Inc. (MicroAge).

In August 1999, the U. S. Department of Health and Human Services, Administration for Children and Families (ACF) requested that we perform a financial review of claims submitted by NYSOCFS for the CONNECTIONS project. Previously, under CIN: A-02-99-02008, we reported the results of our review of costs claimed under Phase I of the CONNECTIONS project.

During January 2001, we began a review of equipment and related costs, provided by IBM and MicroAge,¹ which were claimed for Federal reimbursement by NYSOCFS under Phase II of the CONNECTIONS project. During the period March 31, 1996 through September 30, 2000, NYSOCFS claimed \$74,153,379 (federal share \$53,442,293) for equipment and related costs provided by IBM and MicroAge under Phase II.² The claimed costs included the purchase price of the equipment and related software costs, installation charges, site preparation, maintenance charges and finance charges.

Objectives, Scope And Methodology

The objectives of our review were:

- To identify costs claimed by NYSOCFS for equipment provided to preventive services only agencies, which should be removed from the Title IV-E SACWIS claims for federal reimbursement based on a prior agreement between NYSOCFS and ACF.
- To determine if NYSOCFS implemented property management standards to ensure that inventory records for equipment purchased under the CONNECTIONS project are accurate and reliable.
- To determine if NYSOCFS claims for CONNECTIONS equipment and related costs were reasonable and allowable in accordance with the terms of the contract between NYSOCFS and IBM.

¹ On March 18, 1996, NYSOCFS entered into a contractual agreement with IBM to purchase CONNECTIONS equipment and related services. However, until ACF approved the contract on June 25, 1996, federal funding for contract activities was not available. Therefore, NYSOCFS utilized a general state contract with MicroAge, an IBM retailer, to purchase CONNECTIONS equipment. The ACF subsequently approved the purchase of equipment from MicroAge.

² We were unable to determine the paid or deferred status of the \$53,442,293 that NYSOCFS claimed for federal reimbursement through September 30, 2000, since payment by ACF was not based on the content of specific claims. Rather, ACF paid claims based on a budgeted funding level approved for the CONNECTIONS project and deferred all claims that exceeded this level.

To accomplish our objectives we:

- ✓ Examined applicable SACWIS regulations, and ACF Action Transmittals and Program Instructions;
- ✓ Obtained copies of all IBM and MicroAge vouchers for equipment and services claimed for federal reimbursement through September 30, 2000;
- ✓ Reconciled IBM and MicroAge vouchers to the ACF IV-E –12 expenditure reports for the quarters ended March 31, 1996 to September 30, 2000. Used supporting books and records provided by NYSOCFS to classify costs claimed to appropriate cost categories;
- ✓ Obtained an inventory listing of IBM and MicroAge equipment purchased for use under the CONNECTIONS project. Reconciled the quantity and price of equipment per the inventory list to the quantity and price of equipment per the vouchers;
- ✓ Searched the reconciled inventory list to identify equipment provided to preventive services only agencies. Previously, ACF and NYSOCFS agreed that these items should be removed from Title IV-E SACWIS claims;
- ✓ Flowcharted and reviewed inventory management procedures established to account for CONNECTIONS equipment purchased from IBM and MicroAge;
- ✓ Obtained and reviewed copies of two prior audit reports, issued by NYSOSC, which addressed equipment purchased under the CONNECTIONS project;
- ✓ Determined what actions had been taken by NYSOCFS to implement the recommendations of NYSOSC;
- ✓ Used the reconciled inventory list to identify a universe of 19,821 pieces of equipment valued at \$68,598,784 (federal share \$49,386,125).
- ✓ Used stratified random sampling techniques to select a sample of 300 pieces of equipment valued at \$2,459,324 (federal share (\$1,515,917)).
- ✓ Analyzed sample results using an attribute appraisal program to:
 - Estimate the number of pieces of CONNECTIONS equipment not accurately or reliably recorded on the NYSOCFS property management system.
 - Estimate the number of pieces of CONNECTIONS equipment that could not be accounted for or were being used for activities unrelated to the CONNECTIONS project;
- ✓ Analyzed sample results using a variable appraisal program to:

- Estimate the overpayment to NYSOCFS for CONNECTIONS equipment that could not be accounted for or was being used for activities unrelated to the CONNECTIONS project;
- ✓ Tested related equipment costs for software, installation, site preparation, equipment maintenance and finance charges to determine if these costs were reasonable and in compliance with the terms of the contract between NYSOCFS and IBM.

Our review was performed in accordance with generally accepted government auditing standards. We did not perform an in-depth review of the internal control structure of NYSOCFS; however, we reviewed controls established by NYSOCFS related to equipment inventory management. Our fieldwork, which began on January 2, 2001, was temporarily suspended on September 11, 2001 due to the terrorist attack in lower Manhattan. Our fieldwork resumed on January 2, 2002 and was completed on January 31, 2002.

FINDINGS AND RECOMMENDATIONS

In summary, our audit determined that the majority of costs claimed for CONNECTIONS equipment and related costs were reasonable and consistent with the terms of the contract between NYSOCFS and IBM. We found that adjustments to the claimed costs were warranted for \$947,057 (federal share \$686,817) of equipment and related costs that should not have been claimed to the CONNECTIONS project as well as \$3,947,353 (federal share \$2,835,220) of equipment and related costs, which could not be properly identified or located. In addition, we determined that equipment maintenance costs of \$32,882 was improperly claimed at an enhanced FFP rate and improvements are needed in equipment management.

We identified costs claimed by NYSOCFS for equipment, provided to preventive services only agencies, which should be removed from the Title IV-E SACWIS claims for federal reimbursement based on a prior agreement between NYSOCFS and ACF.

We found that NYSOCFS has taken steps to improve the accuracy and reliability of the CONNECTIONS inventory management system. However, our review identified discrepancies between the total number of equipment items per vouchers submitted by IBM and MicroAge and the total number of equipment items per the inventory list, determined that some equipment shown on the inventory list was found at a different location than the one shown on the inventory list and that some equipment shown on the inventory list could not be located.

Finally, we determined that that NYSOCFS improperly claimed equipment maintenance costs for federal reimbursement at the enhanced 75 percent rate.

We have summarized our findings into three major categories, which are discussed in further detail below:

- (1) Preventive Services Only Agency Equipment
- (2) CONNECTIONS Inventory Management Controls
 - (a) Unreconciled Equipment
 - (b) Reconciled Equipment
- (3) Test of Equipment & Related Costs

PREVENTIVE SERVICES ONLY AGENCY EQUIPMENT

In September of 1996, ACF expressed concern that the number of sites and users requiring equipment under the CONNECTIONS project had increased significantly over what was initially anticipated. The ACF was particularly concerned that equipment placed in preventive services only agencies, which provide supportive and rehabilitative services to children and their families to prevent the placement of a child in foster care, would be used for administrative activities unrelated to Title IV-E.

After much correspondence and discussion, NYSOCFS agreed to settle the issue by removing the cost of equipment placed in preventive services only agencies from the Title IV-E SACWIS claims for federal reimbursement and allocating them to all benefiting programs. The ACF asked us to identify the number of pieces and related cost of equipment provided to preventive services only agencies.

We obtained a list of all preventive services only agencies from NYSOCFS. We then searched the inventory list for equipment provided to these agencies. We found that 430 pieces of equipment, with a purchase price of \$691,086 (federal share \$518,315), related software costs totaling \$100,188 (federal share \$75,141), related installation charges totaling \$88,555 (federal share \$66,416) and related maintenance charges totaling \$93,904 (federal share \$46,952) were provided to preventive services only agencies as of September 30, 2000.

However, as indicated on page seven of this report, the inventory list included some pieces of MicroAge equipment that were claimed for federal reimbursement and some that were not. The NYSOCFS was unable to identify which pieces of equipment were purchased from MicroAge but not claimed for federal reimbursement. Therefore, to ensure that NYSOCFS was not unfairly penalized, we calculated and applied a discount designed to account for errors associated with equipment that was not part of its claim. After the application of the discount, our recommended adjustment for equipment provided to preventive services only agencies was \$947,057 (federal share \$686,817). (See Appendix B for a detailed explanation of our methodology for determining the discount and Appendix C for the application of the discount to this audit finding.)

As of the date of this report, NYSOCFS has not proposed a methodology for reallocating the cost of preventive services only agency equipment to benefiting programs.

Recommendation:

1. We recommend that NYSOCFS reduce their claim by \$947,057 (federal share \$686,817). This represents the cost of 430 pieces of equipment, provided to preventive services only agencies, which should be removed from the Title IV-E SACWIS claims for federal reimbursement based on a prior agreement between NYSOCFS and ACF.

NYS Comments

The NYSOCFS concurred with our recommendation to reduce its Title IV-E SACWIS claim by \$686,817 (federal share). However, NYSOCFS felt the recommendation did not represent an audit finding, but rather the identification of exact costs involved in a pre-existing agreement between NYSOCFS and ACF that dated back to 1999. According to this agreement, for SACWIS developmental cost allocation purposes, costs associated with preventive services only agencies would be treated as federally non-participating. The NYSOCFS requested that the narrative of the report be revised to reflect that the recommendation is merely a recognition of that previous agreement, not an audit finding.

OIG Response

We are pleased that NYSOCFS concurred with our recommendation to reduce its Title IV-E SACWIS claim by \$686,817. However, we disagree with NYSOCFS with respect to its position that the recommendation did not represent an audit finding. Since the State failed to adhere to the 1999 agreement, ACF requested as part of our review that we identify the costs claimed by NYSOCFS for this equipment and recommend an adjustment for it in our report. The audit finding is our recommended adjustment of \$686,817.

CONNECTIONS INVENTORY MANAGEMENT CONTROLS

CONNECTIONS equipment was purchased and installed at NYSOCFS, its regional offices, 58 local social services districts and 244 voluntary/contract organizations located throughout the state. For most of the period covered by our review, NYSOFT was the responsible agent of NYSOCFS charged with the distribution and tracking of CONNECTIONS equipment. As such, NYSOFT was responsible for maintaining the inventory management system. The results of our review of CONNECTIONS inventory management controls are discussed under the captions Unreconciled Equipment and Reconciled Equipment.

Unreconciled Equipment:

For equipment purchased with federal funds, 45 CFR 92.32(d)(1) requires states to maintain an equipment inventory management system which includes a description of the equipment, the serial number, and the location, use and condition of the equipment. In addition, OMB Circular A-87, Attachment A, Paragraph C.3.a states that, for costs to be allowable for federal reimbursement, the cost must be allocable to a particular cost objective in accordance with relative benefits received.

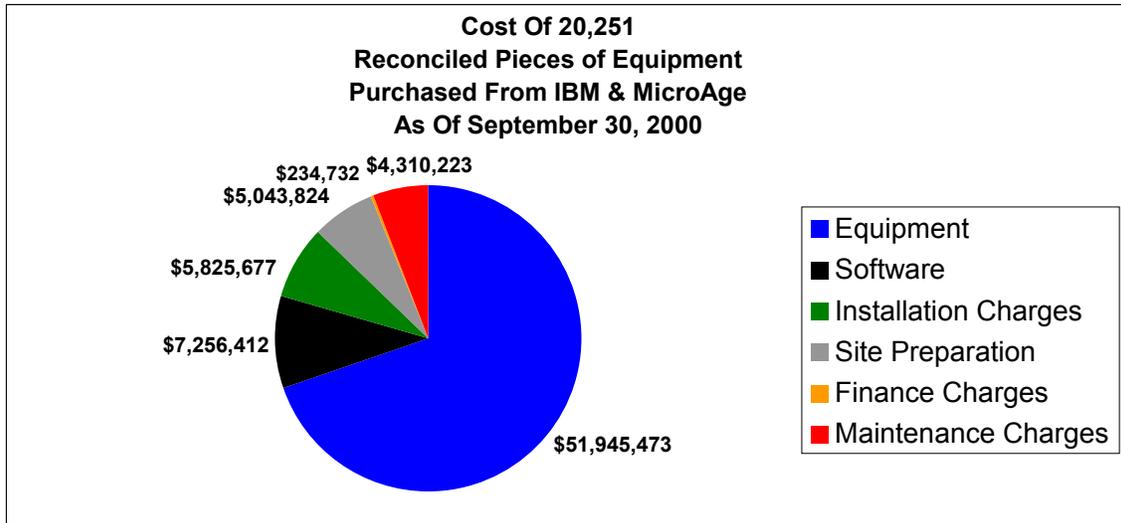
Based on our interviews with state officials, we learned that NYSOFT maintained the CONNECTIONS inventory management system in an *Access* database. Based on CONNECTIONS purchase orders received from NYSOCFS, NYSOFT entered the description of the equipment, quantity ordered and purchase price into the *Access* database. The vendor (IBM) was responsible for installing the equipment and updating the *Access* database to include the equipment serial number and location. The state reconciled the vendor invoices to the *Access* database. In addition, if the equipment was subsequently moved, lost, stolen or scrapped, the equipment administrators (local district or state level) were to notify NYSOFT by e-mail so the *Access* database could be updated.

According to vouchers submitted by IBM and MicroAge as of September 30, 2000, NYSOCFS purchased 20,717 pieces of equipment for use under the CONNECTIONS project. The cost of the equipment per the vouchers, including purchase price, related software costs, installation charges, site preparation, maintenance charges and finance charges was \$76,153,629 (federal Share \$54,942,481)³. The NYSOFT provided us with an inventory listing of IBM and MicroAge equipment purchased for use under the CONNECTIONS project. We attempted to reconcile the equipment per the vouchers to the equipment per the inventory list provided by NYSOFT.

We were able to reconcile 20,251 pieces of IBM and MicroAge equipment, totaling \$74,616,341 (federal share \$53,872,077), between vouchers and the inventory list provided by NYSOFT. In addition to the purchase price, the cost of the equipment included software required to operate CONNECTIONS desktops, laptops and servers. The desktops and laptops were equipped with either Microsoft Office 95 Standard, which included *Word*, *Excel* and *Powerpoint*; or Microsoft Office 95 Professional, which included all of the standard programs plus *Access*. The cost also included wiring, connecting cables and furniture needed to prepare sites for the installation of CONNECTIONS equipment as well

³ The NYSOCFS only claimed \$74,153,379 (federal share \$53,442,293) for costs related to equipment purchased from IBM and MicroAge. We found that NYSOCFS also purchased equipment from MicroAge, totaling \$2,000,250 (federal share \$1,500,188), which was not claimed for federal reimbursement under Phase II. The NYSOCFS was unable to identify which pieces of equipment were purchased from MicroAge but not claimed for federal reimbursement. Moreover, we have no reason to believe that this MicroAge equipment differed in any way from other CONNECTIONS equipment that was claimed for federal reimbursement. Therefore, these items were included when we attempted to reconcile the equipment per the vouchers to the equipment per the inventory list provided by NYSOFT.

as the cost to actually install the equipment. Finally, the cost included a monthly fee for equipment maintenance as well as charges for utilizing financing provided by IBM to purchase some of the CONNECTIONS equipment. These costs are further detailed below:



Initially, we were unable to reconcile 466 pieces of equipment, with a purchase price, related software costs, installation charges and maintenance charges totaling \$1,537,288 (federal share \$1,070,404). We provided NYSOCFS with a list of the unreconciled items. After we had completed our fieldwork, NYSOCFS provided additional information that enabled us to reconcile 96 of these items with a purchase price, related software costs, installation charges and maintenance charges totaling \$596,400 (federal share \$398,612). Since this information was provided after we had completed our fieldwork, we did not attempt to locate the equipment or determine if it was being used for activities that benefit the CONNECTIONS project.

The NYSOCFS was unable to reconcile the remaining 370 pieces of equipment with a purchase price, related software costs, installation charges and maintenance charges totaling \$940,888 (federal share \$671,792). We were advised by NYSOCFS officials that, in some cases, these discrepancies occurred because of data entry errors. In other cases, NYSOCFS officials said that, due to technical problems, IBM did not install a piece of equipment designated for installation at a specific site. Eventually, IBM installed a replacement, but NYSOCFS inappropriately recorded the serial number of the originally-intended item on the inventory list. As a result, NYSOCFS was unable to document that this equipment was ever received or used for activities that benefit the CONNECTIONS project as required by OMB Circular A-87, Attachment A, Paragraph C.3.a.

During our review, we became aware that the New York State Office of State Comptroller (NYSOSC) had performed a review of CONNECTIONS equipment and identified a similar finding. The NYSOSC recommended, and NYSOCFS agreed, to reconcile existing discrepancies and errors in the equipment inventory records.

For our review, NYSOCFS officials advised us that NYSOFT is in the process of providing the LAN administrator of each location a list of equipment currently assigned to that location. The LAN administrator will verify the existence of the equipment and work with NYSOFT to resolve any discrepancies or errors in the equipment inventory records.

Recommendations:

We recommend that:

1. If NYSOCFS is unable to reconcile the 370 pieces of equipment and provide evidence that this equipment is used for CONNECTIONS, they should reduce their claim by \$940,888 (federal share \$671,792), which represents the purchase price, related software costs, installation charges and maintenance charges associated with this equipment.
2. NYSOCFS continue to reconcile existing discrepancies and errors in the equipment inventory records and provide assurance to ACF that the equipment inventory records have been corrected.

NYS Comments

The NYSOCFS officials did not concur with our recommendation to reduce their claim if they were unable to reconcile 370 pieces of equipment and provide evidence that this equipment is used for CONNECTIONS because, in their opinion, the errors found were technical record keeping errors. The NYSOCFS officials indicated that the errors occurred because, if IBM encountered technical problems with equipment during the original installation, its practice was to substitute a new piece of equipment. According to NYSOCFS officials, IBM apparently failed to update the inventory with the serial number of the replacement piece of equipment, thereby creating errors in the inventory records.

The NYSOCFS officials also noted that the OIG reconciliation process involved matching serial numbers between vouchers and inventory records. Based upon the serial number verification, NYSOCFS officials noted that OIG found substantial amounts of the same type of equipment on the inventory with the same unit costs that appeared to be unclaimed. According to the NYSOCFS officials, the value of equipment that was claimed (but did not appear on the inventory list) was \$671,972 while the value of equipment that was not claimed (but did appear on the inventory list) was \$1,500,188. Accordingly, NYSOCFS requested that OIG offset this finding with amounts on the inventory not claimed and remove the finding from the final report.

Regarding our second recommendation, NYSOCFS officials indicated they are continuing to work with NYSOFT to reconcile existing discrepancies in equipment inventory records. In addition, NYSOCFS officials indicated that they are currently performing a statewide replacement of CONNECTIONS PCs. As part of this process, a system wide physical inventory is being performed that will enable NYSOCFS to update the inventory records and reconcile outstanding discrepancies. The NYSOCFS officials noted that, to date,

approximately 75 percent of the CONNECTIONS PCs have been replaced and the related inventory records updated. The NYSOCFS expects to replace the remaining PCs by the end of the winter.

Finally, NYSOCFS officials indicated that, as part of the PC replacement process, they are deploying *Tivoli* software that will help better identify and track devices on the network by performing periodic electronic inventories.

OIG Response

We disagree with the state's contention that the errors are merely "technical record keeping errors" because this infers a lack of importance to the fact that NYSOCFS can not demonstrate that 370 pieces of equipment, purchased with federal funds, were received or used for activities that benefit the CONNECTIONS project. Federal guidance on this issue is clear. For equipment purchased with federal funds, 45 CFR 92.32(d)(1) requires states to maintain an equipment inventory management system which includes a description of the equipment, the serial number, the location, and use and condition of the equipment. In addition, OMB Circular A-87, Attachment A, Paragraph C.3.a states that, for costs to be allowable for federal reimbursement, the cost must be allocable to a particular cost objective in accordance with relative benefits received.

The State suggests that our recommended adjustment of \$671,972 for unreconcilable equipment should be offset by \$1,500,188 of similar equipment found on the inventory list that appeared to be unclaimed. During our review, we provided a listing of the unreconcilable equipment to the State and gave them the opportunity to try and link this equipment to the unclaimed equipment. As indicated on page eight of this report, we gave the State credit for 96 pieces of equipment for which they were able to successfully show this link. On January 3, 2002, the State informed us that it had exhausted all efforts to make this link for the remaining 370 pieces of equipment. Consequently, we continue to recommend an adjustment for \$671,972.

We are pleased that NYSOCFS is continuing to take action to resolve existing discrepancies and errors in CONNECTIONS inventory records. We urge NYSOCFS to keep ACF informed about the status of efforts to correct CONNECTIONS inventory records.

Reconciled Equipment:

The inventory records maintained by NYSOFT represented the mechanism used by NYSOCFS to account for CONNECTIONS equipment. During the course of our review, we tested the accuracy and reliability of the CONNECTIONS inventory records by attempting to locate a sample of CONNECTIONS equipment. We then projected the results of our sample to estimate the number of pieces of equipment that were missing or were not found at the location recorded on the inventory list.

Prior to drawing our sample, we excluded certain costs from the reconciled universe of CONNECTIONS equipment. Specifically, we removed costs, totaling \$973,733 (federal

share \$706,824), associated with 430 pieces of preventive services only agency equipment, and equipment maintenance charges (federal share \$32,882) which our review determined to be unallowable (See page 15 of report). In addition, site preparation costs, totaling \$5,043,824 (federal share \$3,746,246), were removed because these costs could not be associated with specific pieces of equipment.

Therefore, for purposes of testing the CONNECTIONS inventory management controls, the universe of reconciled equipment consisted of 19,821 pieces of equipment with a purchase price, related software costs, installation charges, maintenance charges and finance charges totaling \$68,598,784 (federal share \$49,386,125).

Reconciled Universe of IBM & MicroAge Equipment After Removal Of Site Preparation Costs, Unallowable Equipment Maintenance And Preventive Services Only Agency Equipment		
	Gross	FFP
13,598 Desktop Workstations	\$46,853,111	\$34,193,882
2,373 Printers	\$ 4,316,891	\$ 3,066,991
1,980 Laptop Computers	\$10,655,491	\$ 7,822,110
1,543 Hubs & Switches	\$ 2,041,230	\$ 1,425,269
<u>327 Servers</u>	<u>\$ 4,732,061</u>	<u>\$ 2,877,873</u>
<u>19,821 Total</u>	<u>\$68,598,784</u>	<u>\$49,386,125</u>

We used stratified random sampling techniques to select a sample of 300 pieces of equipment with a purchase price, related software costs, installation charges, maintenance charges and finance charges totaling \$2,459,324 (federal share \$1,515,917). For each of the 300 sample items we:

- Determined if the equipment was being used for activities related to the CONNECTIONS project.
- Determined if the equipment could be found at the location per the inventory list.
- Attempted to locate equipment that was not found at the location per the inventory list.

We found that, for the most part, NYSOCFS was able to document the current location and condition of CONNECTIONS equipment. Moreover, based on responses provided by local district officials, we found that NYSOCFS was able to demonstrate that the equipment was used for activities that benefit the CONNECTIONS project.

However, we determined that 70 of the 300 sample items, totaling \$363,204 (federal share \$232,665), could not be found at the location shown on the inventory list. We were advised

by NYSOFT officials that the inventory errors were caused by inaccurate or incomplete information provided by the local districts. Specifically, the local districts failed to notify NYSOFT when equipment was moved, lost, stolen or scrapped. Based on our statistical sample, we estimate that the location of 3,820 pieces of CONNECTIONS equipment is improperly recorded on NYSOFT's inventory records.

We attempted to determine the actual location of all 70 items. We determined that 33 of the 70 items could not be located. The missing equipment consisted of 14 printers, 10 laptops, 5 desktop workstations, 3 hubs and 1 server. We provided NYSOCFS officials with a list of the missing equipment. As of the date of this report, NYSOCFS has not been able to locate this equipment. Consequently, NYSOCFS was unable to document the current location and condition of the equipment as required by 45 CFR 92.32(d)(1). Moreover, NYSOCFS was unable to document that this equipment was ever received or used for activities that benefit the CONNECTIONS project as required by OMB Circular A-87, Attachment A, Paragraph C.3.a.

The total amount improperly claimed to the Title IV-E program for 33 errors was \$108,969 (federal share \$75,819). Based on an extrapolation of the statistical sample, we estimate that NYSOCFS cannot document the current location or condition of 1,905 pieces of equipment. We estimate the value of this equipment to be \$3,006,465 (federal share \$2,163,428), which represents the lower limit of the 90 percent confidence interval. (See Appendix A for details on our statistical sampling methodology.)

In calculating our projection, we applied to the purchase price of the equipment the discount for errors associated with reconciled equipment costs that were not claimed under Phase II. We did not discount the related software costs, installation charges, equipment maintenance charges or finance charges since these costs were claimed in total. (See Appendix B for a detailed explanation of our methodology for determining the discount.)

We found that the NYSOSC also identified similar findings with respect to equipment that was missing or not found at the location on the inventory list. The NYSOSC recommended that NYSOCFS periodically conduct physical inventories and establish and update inventory records based on documentation that was independent of the equipment vendor. The NYSOCFS concurred with the NYSOSC recommendations.

For our review, NYSOCFS officials advised us that, due to cost considerations, a complete physical inventory of existing CONNECTIONS equipment has not been performed. However, NYSOFT is in the process of implementing Tivoli, which is an IBM asset management tool designed to identify and track equipment on a network. Rather than conduct physical inventories, NYSOFT will use Tivoli to electronically verify inventory location and alert the agency to equipment that is not connected to the network.

The NYSOCFS officials also told us that procedures have been added so that when new equipment is installed, the vendor will enter the serial number and other pertinent inventory control information to a web site that is linked to the NYSOFT inventory list. The LAN administrator will then sign on the website with their user ID and verify the information

entered by the vendor. This will automatically update inventory records independent of invoices supplied by IBM.

We are concerned that the procedures planned by NYSOCFS will not correct deficiencies related to the movement of equipment after it has been installed. As discussed on page seven of this report, the local districts are required to notify NYSOFT by e-mail when equipment is moved, lost, stolen or scrapped. However, NYSOCFS cited the failure of local districts to provide this information as the primary cause of their inability to locate sample items selected during our review. Moreover, the web site can only be used to update the inventory records to reflect the original installation of equipment. It is not currently capable of updating the inventory records to reflect subsequent movements of that equipment. The Tivoli software can be used to determine the current location of a piece of equipment, but it does not automatically update the inventory records. As a result, NYSOFT's inventory records will still not accurately reflect situations where equipment was lost, stolen, moved or sent for repair.

Recommendations:

We recommend that:

1. If NYSOCFS is unable to locate the 33 missing sample items and provide evidence that this equipment is used for CONNECTIONS, they should reduce their claim by \$3,006,465 (federal share \$2,163,428), which represents the lower limit of the 90 percent confidence interval.
2. NYSOCFS revise their procedures for updating inventory records to reflect the movement of CONNECTIONS equipment after it has been installed.
3. NYSOCFS monitor the progress of their planned improvements to the CONNECTIONS inventory management system and provide assurance to ACF that action has been taken to address missing equipment and that the location of the equipment has been updated.

NYS Comments

The NYSOCFS officials made several points with regard to our recommendation to adjust its claim for missing equipment if they could not locate the equipment and provide evidence that this equipment is used for CONNECTIONS. First, the cited amount represented a large number of pieces of equipment. If that amount was missing and not replaced by substitute equipment it would have been immediately noticeable by users. Second, since most of the equipment was purchased in 1996 and 1997, the equipment was fully depreciated by the time of the audit and the fair market value is much lower than the OIG finding indicates. Third, in some instances technical record keeping errors resulted from the failure of IBM to update inventory records with the serial number of replacement pieces of equipment. Fourth, in the case of some printers, the serial numbers were truncated. The state has developed a listing with the correct serial numbers. Fifth, many of the printers were low

cost non-network printers. When these printers malfunctioned, they were often replaced instead of being repaired. As a result, the serial number on the inventory list continued to reflect the original printer not the replacement printer.

Also, the NYSOCFS officials noted that they had located some of the missing equipment since the issuance of the draft report and requested that the report be appropriately adjusted.

Regarding our second recommendation for NYSOCFS to revise their procedures for updating records to reflect the movement of CONNECTIONS equipment after it has been installed, NYSOCFS officials indicated that they are currently performing a statewide replacement of CONNECTIONS PCs. As part of this process, *Tivoli* client software has been included on all new PCs. This software will help better identify and track devices on the network by performing periodic electronic inventories. In addition, the software will alert NYSOCFS to any PCs that are not connected to the network. The NYSOCFS officials also pointed out that they are in the process of developing plans to integrate *Peregrine Asset/Center* software that will allow enhanced inventory management of additional devices, including printers.

The NYSOCFS officials noted that inventory procedures have been updated using NYSOFT's CONNECTIONS Inventory WEB Application. This application directly links to the Oracle database and offers an on-line inventory update. According to state officials, the WEB application should serve to reduce manual serial number data entry errors.

Lastly, NYSOCFS officials indicated they will continue to work closely with NYSOFT to improve CONNECTIONS inventory management. In addition, NYSOCFS officials stated they would use future Advanced Planning Documents to provide ACF with an update of their progress.

OIG Response

State officials raised questions about whether users noticed missing equipment, the possible effect of truncated serial numbers and the effect of IBM's failure to update inventory records with the serial number of replacement pieces of equipment. However, the state provided no documentation that would allow us to reasonably conclude that any of the state's arguments had merit.

The state also argued that since most of the equipment was purchased in 1996 and 1997, the equipment was fully depreciated by the time of the audit and the fair market value was much lower than the OIG finding indicates. Unfortunately, the state cannot document when the equipment ceased to be available for activities that benefit the CONNECTIONS project. As a result, we are unable to determine the potential impact of depreciation on our audit finding.

Since the issuance of the draft report, the state was able to locate 13 pieces of equipment that we had reported as missing. We examined the equipment located by NYSOCFS and made appropriate adjustments to the report.

The state's response to our second recommendation does not adequately address the issue of tracking CONNECTIONS equipment that is moved subsequent to installation. The NYSOFT's CONNECTIONS Inventory Web Application can only be used to update the inventory records to reflect the initial installation of original or replacement equipment. It is not capable of updating the inventory records to reflect subsequent movement of that equipment. Moreover, while *Tivoli* and *Peregrine Asset/Center* software can be used to determine the current location of a piece of equipment, they do not automatically update the inventory records. As a result, NYSOFT's inventory records will not reflect, in a timely or accurate manner, situations where equipment was lost, stolen, moved or sent for repair.

Finally, we are pleased that NYSOCFS is continuing to take action to resolve existing discrepancies and errors in CONNECTIONS inventory records. We urge NYSOCFS to keep ACF informed about the status of efforts to correct CONNECTIONS inventory records.

TEST OF EQUIPMENT & RELATED COSTS

We tested the reconciled universe of equipment and related costs to determine if they were reasonable and allowable in accordance with the terms of the contract between NYSOCFS and IBM. We found that, with the exception of equipment and related costs associated with preventive services only agencies, unreconciled equipment and missing equipment for which we are recommending an adjustment, the remaining costs were found to be reasonable and allowable in accordance with the terms of the contract.

However, we found that NYSOCFS improperly claimed equipment maintenance costs for federal reimbursement at the enhanced 75 percent rate. The difference between the federal share of the claim at 75 percent versus the allowable federal share at 50 percent is \$32,882.

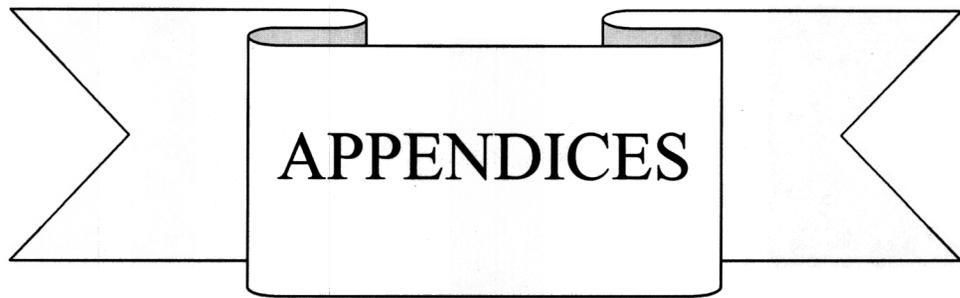
According to ACF Action Transmittal No. ACF-OISM-001, dated February 24, 1995, costs for equipment repair and maintenance are not eligible for enhanced funding. We found that on voucher No. 7150405, for \$131,527, NYSOCFS claimed equipment maintenance at enhanced 75 percent FFP totaling \$98,645. According to federal regulations, only 50% of the cost, totaling \$65,763, is eligible for federal reimbursement. As a result, NYSOCFS inappropriately claimed federal reimbursement of \$32,882.

Recommendation:

1. We recommend that NYSOCFS reduce the federal share of equipment maintenance costs claimed by \$32,882.

NYS Comments

The NYSOCFS concurred with our recommendation and agreed to reduce the federal share of its Title IV-E SACWIS claim by \$32,882. According to NYSOCFS officials, the adjustment will be done in conjunction with a reconciliation of SACWIS claims being performed jointly with ACF.



APPENDICES

STATISTICAL SAMPLING INFORMATION

Estimate of value of CONNECTIONS equipment that was missing and could not be accounted for.

Population (Pieces of Equipment)	Population (Gross Dollars)	Sample Size (Pieces of Equipment)	Sample Size (Gross Dollars)	Sample Errors (Pieces of Equipment)	Sample Errors (Gross Dollars)
19,821	\$68,598,784	300	\$2,459,324	33	\$108,969

Population (Pieces of Equipment)	Population (Federal Share Dollars)	Sample Size (Pieces of Equipment)	Sample Size (Federal Share Dollars)	Sample Errors (Pieces of Equipment)	Sample Errors (Federal Share Dollars)
19,821	\$49,386,125	300	\$1,515,917	33	\$75,819

Projection of Sample Results
(Precision At The 90 Percent Confidence Level)

	Gross	Federal Share
Upper Limit	\$7,307,625	\$5,297,561
Point Estimate	\$5,157,045	\$3,730,494
Lower Limit	\$3,006,465	\$2,163,428
Precision	41.70%	42.01%

NOTE: The population (Gross and federal share dollars) includes the purchase price of the equipment, and related software costs, installation charges, equipment maintenance charges and finance charges. The sample size, sample errors and projection (Gross and federal Share dollars) includes the purchase price of the equipment, discounted for errors associated with reconciled equipment costs that were not claimed under Phase II, and related software costs, installation charges, equipment maintenance charges and finance charges which were not discounted. (See Appendix B for an explanation of the methodology for determining the discount.)

STATISTICAL SAMPLING INFORMATION

Estimate of number of pieces of CONNECTIONS equipment that was missing and could not be accounted for.

Population (Pieces of Equipment)	Population (Gross Dollars)	Sample Size (Pieces of Equipment)	Sample Size (Gross Dollars)	Sample Errors (Pieces of Equipment)	Sample Errors (Gross Dollars)
19,821	\$68,598,784	300	\$2,459,324	33	\$108,969

Population (Pieces of Equipment)	Population (Federal Share Dollars)	Sample Size (Pieces of Equipment)	Sample Size (Federal Share Dollars)	Sample Errors (Pieces of Equipment)	Sample Errors (Federal Share Dollars)
19,821	\$49,386,125	300	\$1,515,917	33	\$75,819

Projection of Sample Results
(Precision At The 90 Percent Confidence Level)

Upper Limit	2,556
Projected Quantity	1,905
Lower Limit	1,254
Precision	3.282%

NOTE: The population (Gross and federal share dollars) includes the purchase price of the equipment, and related software costs, installation charges, equipment maintenance charges and finance charges. The sample size, sample errors and projection (Gross and federal share dollars) includes the purchase price of the equipment, discounted for errors associated with reconciled equipment costs that were not claimed under Phase II, and related software costs, installation charges, equipment maintenance charges and finance charges which were not discounted. (See Appendix B for an explanation of the methodology for determining the discount.)

STATISTICAL SAMPLING INFORMATION

Estimate of number of pieces of CONNECTIONS equipment not accurately or reliably recorded on the CONNECTIONS inventory list.

Population (Pieces of Equipment)	Population (Gross Dollars)	Sample Size (Pieces of Equipment)	Sample Size (Gross Dollars)	Sample Errors (Pieces of Equipment)	Sample Errors (Gross Dollars)
19,821	\$68,598,784	300	\$2,459,324	70	\$363,204

Population (Pieces of Equipment)	Population (Federal Share Dollars)	Sample Size (Pieces of Equipment)	Sample Size (Federal Share Dollars)	Sample Errors (Pieces of Equipment)	Sample Errors (Federal Share Dollars)
19,821	\$49,386,125	300	\$1,515,917	70	\$232,665

Projection of Sample Results
(Precision At The 90 Percent Confidence Level)

Upper Limit	4,711
Projected Quantity	3,820
Lower Limit	2,929
Precision	4.496%

NOTE: The population (Gross and federal share dollars) includes the purchase price of the equipment, and related software costs, installation charges, equipment maintenance charges and finance charges. The sample size, sample errors and projection (Gross and federal share dollars) includes the purchase price of the equipment, discounted for errors associated with reconciled equipment costs that were not claimed under Phase II, and related software costs, installation charges, equipment maintenance charges and finance charges which were not discounted. (See Appendix B for an explanation of the methodology for determining the discount.)

Footnote References

Footnote No. 1: Costs Not Claimed Under Phase II

During the reconciliation process, we determined that NYSOCFS claimed federal reimbursement for only \$49,945,223 of the \$51,945,473 equipment purchase price. We were told by NYSOCFS officials that MicroAge equipment, with a purchase price of \$2,000,250, was on the inventory list but was not claimed for federal reimbursement under Phase II. The NYSOCFS was unable to identify which pieces of MicroAge equipment were not claimed for federal reimbursement under Phase II. Consequently, these items remained in the reconciled universe of equipment that we reviewed.

Footnote No. 2: Discount Rate For Costs Not Claimed Under Phase II

We had no reason to believe that equipment purchased with federal and non-federal dollars differed in any way. Moreover, we wanted to ensure that NYSOCFS was not unfairly penalized for errors, identified during the course of our review, which were associated with equipment that was not part of its claim for federal reimbursement. We calculated this discount rate by comparing the total costs claimed for federal reimbursement (\$49,945,223) to the total costs incurred (\$51,945,473). We did not calculate a discount rate for software costs, installation charges, equipment maintenance charges or finance charges since all of these costs were claimed for federal reimbursement.

APPENDIX C

**CALCULATION OF RECOMMENDED ADJUSTMENT FOR
PREVENTIVE SERVICES ONLY AGENCY EQUIPMENT**

In calculating our recommended adjustment to preventive services only agency equipment costs, we applied to the purchase price the discount for errors associated with costs that were not claimed for federal reimbursement under Phase II. We did not discount the related software costs, installation charges or equipment maintenance charges since these costs were claimed. On page six of the report we are questioning costs associated with equipment provided to preventive services only agencies, totaling \$947,057 (federal share \$686,817) which was calculated as follows:

Description	Purchase Price Of Equipment	Software	Installation Charges	Equipment Maintenance	Total
Total Cost Of Equipment Provided To Preventive Services Only Agencies	\$691,086	\$100,188	\$88,555	\$93,904	\$973,733
Multiplied by: Discount Rate For Costs Not Claimed Under Phase II (See Appendix B)	.9614	---	---	---	---
Questioned Costs After Application Of Discount For Costs Not Claimed Under Phase II	\$664,410	\$100,188	\$88,555	\$93,904	\$947,057
Federal Share Of Questioned Costs	\$498,308	\$75,141	\$66,416	\$46,952	\$686,817



New York State
Office of
Children & Family
Services

George E. Pataki
Governor

John A. Johnson
Commissioner

October 28, 2002

Mr. Timothy J. Horgan
Regional Inspector General
Department of Health and Human Services
Office of the Inspector General
Office of Audit Services
26 Federal Plaza
Room 3900A
New York, NY 10278

Dear Mr. Horgan:

Commissioner John A. Johnson has asked me to respond to the Department of Health and Human Services Office of Inspector General's (OIG) draft report entitled "Review of Costs Claimed by The New York State Department of Family Assistance, Office of Children and Family Services For Equipment Provided by IBM and MicroAge under Phase II of the CONNECTIONS Project" (Common Identifier No. A-02-01-02001). The New York State Office of Children and Family Services (OCFS) received the draft report by letter dated August 28, 2002.

Four recommendations contained in the draft report relate to fiscal issues. As summarized immediately below, we either do not concur with, or only partially concur with three of the recommendations and concur completely with one recommendation.

While we concur with refunding expenditures claimed for equipment supplied to preventive-only agencies, we do not concur that the first fiscal recommendation (Recommendation #1 in the draft audit report) is an audit finding. It is merely a recognition of a previous agreement between OCFS and the Administration for Children and Families (ACF), and the narrative of the report should be adjusted to reflect that this is not an audit finding.

We do not concur with the second fiscal recommendation (Recommendation #2 in the draft audit report) since OIG staff found that the overall amount of equipment on the inventory was consistent with the claims. The errors found are technical record keeping errors. OCFS would request that the report be appropriately adjusted to reflect this.

With regard to the third fiscal recommendation (Recommendation #4 in the draft audit report), subsequent to the OIG's fieldwork, State staff

Capital View Office Park

52 Washington Street
Rensselaer, NY 12144-2796



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have been successful in locating several items of equipment identified in the draft report as not located. These items are identified in the enclosed inventory plan. In particular, we would like to note that several major items have been located and verified by your staff including one server. Based upon these recent findings and verification by OIG staff prior to issuance of the final report, OCFS would request that the report be appropriately adjusted.

Finally, we concur with the fourth fiscal recommendation (Recommendation #7 in the draft audit report).

OCFS has had initial discussions with the Federal program agency responsible for the Statewide Automated Child Welfare Information System (SACWIS) project and ACF outlining those actions needed to resolve the remaining SACWIS financial claiming issues. OCFS appreciates the professionalism demonstrated by Mr. Madigan and his staff in bringing this audit to closure.

The draft report included seven recommendations, four that are fiscal in nature regarding refunding previously claimed Title IV-E SACWIS Developmental FFP, and three recommendations regarding enhancing inventory controls.

The seven recommendations, and OCFS' detailed response to each, are provided below:

- 1 NYSOCFS reduce their claim by \$947,057 (Federal share \$686,817). This represents the cost of 430 pieces of equipment, provided to preventive services only agencies, which should be removed from the Title IV-E SACWIS claims for Federal reimbursement based on a prior agreement between NYSOCFS and ACF.

Response:

OCFS concurs with the OIG's recommendation that OCFS reduce its Title IV-E SACWIS developmental Federal share claim by \$686,817 for the equipment provided to preventive-only voluntary agencies based on an agreement between OCFS and ACF dating back to 1999. This agreement reflects discussions between OCFS and ACF on how to allocate costs for the voluntary agencies as a whole and the preventive-only agencies in particular. The agreement reached was that the preventive-only agencies would be treated as Federally non-participating, and the

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remaining agencies would be treated as Title IV-E Federally participating for SACWIS Development cost allocation purposes.¹

OCFS recognizes this not as an audit finding, but rather as the identification of the exact costs involved in a pre-existing agreement between ACF and OCFS on certain developmental costs.

2. If NYSOCFS is unable to reconcile the 370 pieces of equipment and provide evidence that this equipment was used for CONNECTIONS, they should reduce their claim by \$940,888 (Federal share \$671,792), which represents the purchase price, related software costs, installation charges and maintenance charges associated with this equipment.

Response:

The OIG's reconciliation indicates that the value of the inventory is consistent with the amount claimed; this finding is based on the OIG's audit process involving a matching process based on the serial numbers contained in two sets of records (vouchers and inventory). During the original installation (circa. 1996-97), if IBM encountered technical problems with a piece of equipment, its practice was to substitute a new piece of equipment. To the best of our knowledge, it appears that the installer occasionally failed to update the inventory with the serial number of the replacement piece of equipment, thereby creating errors in the State's inventory records.

Based upon serial number verification only, it must be noted that the OIG found substantial amounts of the same type of equipment on the inventory with the same unit costs that appeared to be unclaimed.

Recognizing that the OIG has identified the appropriate value of the equipment on inventory, this record-keeping lapse is a purely technical error and not a substantive error where the value of the equipment purchased was overstated. The OIG determined the value of the equipment claimed, including installation and maintenance, and which did not appear on inventory to be \$671,792 (Federal share), while the equipment on inventory and

¹ In New York foster care may be provided to children through authorized agencies. These agencies are often referred to as "voluntary" as a reflection of their historic role as charity based organizations. The term "preventive only" refers to authorized agencies that contract with local social service districts to provide children and families with services designed to prevent a child from being removed from the child's home or reunify the family where removal has occurred. There are agencies that provide both foster care and preventive services and a few that provide only preventive services.

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which was not claimed was \$1,500,188. Accordingly, OCFS respectfully requests that the OIG offset this finding with amounts on the inventory not claimed and remove the finding from the final report.

3. NYSOCFS continue to reconcile existing discrepancies and errors in the equipment inventory records and provide assurance to ACF that the equipment inventory records have been corrected.

Response:

OCFS continues to work with the New York State Office for Technology (OFT) to reconcile existing discrepancies in equipment inventory records. The current statewide replacement of the original baseline CONNECTIONS PCs provides this opportunity on a timely basis.

OCFS is conducting a system-wide physical inventory in conjunction with the replacement of baseline personal computers. This will enable OCFS and OFT to update the inventory records and resolve any outstanding discrepancies. Through the recent replacement of 75 percent of the baseline personal computers, the State has been successful in updating its inventory records for 9,750 workstations. The balance of the workstations which are scheduled for replacement, are in the process of being replaced, and should be completed by the end of the winter. Once this replacement is complete, OCFS will have had its entire inventory of baseline workstations reconciled and its records updated correctly.

As part of the PC replacement, OCFS is deploying Tivoli software that will perform periodic electronic inventories. Tivoli will help us in our asset management to better identify and track the devices on the network, including the ability to provide an alert when items go off line. Since the close of the audit, OFT has received Federal approval for the rollout of Tivoli onto the network.

4. If NYSOCFS is unable to locate the 46 missing sample items and provide evidence that this equipment was used for CONNECTIONS, they should reduce their claim by \$5,543,061 (Federal share \$3,997,408), which represents the lower limit of the 90 percent confidence interval.

Response:

While OCFS continues to attempt to locate the missing equipment, several points must be made with regard to the finding/recommendation. First, the cited amount represents a

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large number of pieces of equipment. If that amount was missing and not replaced with substitute equipment, it would have been immediately noticeable by users, which does not appear to be the case. Second, the vast majority of this equipment was purchased in 1996 and 1997. As such, the equipment value was fully depreciated by the time of the audit. Consequently, the fair market value is much lower (limited to trade in or salvage) than the OIG finding indicates. Third, a percentage of the equipment was replaced in 1999 in response to Y2K considerations and as with recommendation two above, there likely were technical inventory record-keeping errors (failure to take the replaced equipment off the inventory) rather than a substantive error. Fourth, in the case of the CIAB printers, the serial numbers were truncated. This was just discovered and we have developed a listing with the correct serial numbers. Fifth, again involving CIAB printers, these are low cost, non-network inkjet printers. When they malfunctioned, rather than undertaking a service call to fix them, IBM (as the maintenance vendor) often would mail out a replacement. As a result, the serial number on the inventory would continue to reflect the original printer rather than the new replacement printer.

Since the draft report's issuance, OCFS has been successful in locating several pieces of equipment. The enclosure to this letter provides the most current information as to equipment still not located, equipment located by OCFS, and equipment located by OCFS and verified by OIG staff.

We are continuing our attempt to locate equipment. As each piece of equipment is located, we will request the OIG to physically verify the item and adjust this finding accordingly. Since most of these pieces are at locations across the State, we are attempting to schedule the physical reviews in the most economically and efficient manner for both OCFS and OIG staff.

5. NYSOCFS revise their procedures for updating inventory records to reflect the movement of CONNECTIONS equipment after it has been installed.

Response:

As part of the workstation replacement initiative described above, NYSOCFS has included Tivoli client software on all new computers. This software will allow OCFS and OFT to automatically electronically poll workstations connected to the network, and produce periodic reports that will verify our inventory. These reports will allow OCFS to compare historical inventory records with current records, alerting the State to any

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pieces of equipment, which are not currently connected to the network. Plans are also being developed to integrate Peregrine AssetCenter software, which will allow enhanced inventory management of additional devices, including printers. Once fully deployed, AssetCenter will also allow the State to determine a device's location on the network.

Procedures are being developed that will call for the State to investigate these discrepancies, either by calling the local LAN administrator or through on-site visits, to rectify the discrepancy.

Additionally, procedures for inventory have been updated using OFT's Connections Inventory WEB Application that replaced the paper IML. This is a significant improvement since it directly links to the Oracle database; the workstation when placed in service, electronically sends its serial number directly to the database, thus, reducing manual serial number data entry errors. This application also allows the State to look into the inventory and see (for example) what machine (new) is replacing what machine (old) that ends up as a trade-in with IBM. The WEB application offers an on-line inventory update.

6. NYSOCFS monitor the progress of their planned improvements to the CONNECTIONS inventory management system and provide assurance to ACF that action has been taken to address missing equipment and that the location of the equipment has been updated.

Response:

As discussed in some detail above, OCFS will continue to work closely with OFT to improve CONNECTIONS inventory management. Towards achieving this goal, OFT recently requested and received approval from DHHS to allow the deployment of Tivoli and Peregrine AssetCenter software on the Human Services Network. OCFS will continue to monitor the progress of OFT in deploying this software on the network and will provide DHHS with an update of their progress in future Advanced Planning Document Updates.

7. NYSOCFS reduce the Federal share of equipment costs claimed by \$32,882, which represents the difference between the Federal share of the claim at 75 percent versus the allowable Federal share at 50 percent.

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Response:

OCFS agrees with the recommendation and will make the adjustment in conjunction with the reconciliation of SACWIS claims and deferrals that will be completed jointly with ACF.

Please let me know if you need any clarifications or additional information on the responses provided.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Rosenblat', with a long horizontal flourish extending to the right.

Melvin I. Rosenblat
Deputy Commissioner
Division of Administration

Enclosure

cc: John A. Johnson. Commissioner

Enclosure

The following chart provides the status of each piece of equipment reported by the OIG as missing.

Serial #	Description	Location	Current Status		Comments
			Not Located	OIG Verified	
4J1R0D0	Printer	330 Delaware Avenue Buffalo - Erie County	X		Swapped out by IBM. No notification to Asset management
4H1R0XN	Printer	960 Salt Springs Road Syracuse	X		Currently can't locate
4P1H17T	Printer	500 Western Highway Blauvelt - Rockland County		X	Currently can't locate Actual s/n SG641P1H17T
5K1J0RZ	Printer	North Wading River Road Convent Building Wading River - Suffolk County	X		Swapped out by IBM. No notification to Asset management
5P1J23V	Printer	500 Linda Avenue Hawthorne - Westchester County	X		Currently can't locate SITE 9E1
4Q1T321	Printer	248 East 161st Street Bronx - Bronx County	X		Currently can't locate
5F1J0HS	Printer	3261 Third Avenue Bronx - Bronx County		X	FOUND 40 NP LEVEL 51
4Q1H1V5	Printer	1221 Spofford Avenue Bronx - Bronx County	X		Currently can't locate SITE B2H
4R1T096	Printer	732 Henry Street Brooklyn - Brooklyn County	X		Currently can't locate SITE K1P
4Q1H240	Printer	250 West 57th Street Suite 219 New York - Manhattan County	X		Currently can't locate SITE M0L actual s/n SG64Q1H240
4Q1T31R	Printer	365 Broadway New York - Manhattan County	X		Stolen from Brooklyn office Working on police report
511B1NJ	Printer	213-32 35th Avenue Bayside - Queens County	X		Currently can't locate SITE Q1F
2340778	Hub	3837 West Main Street Building 2 Batavia - Genesee County	X		Currently can't locate
2314495	Hub	Route 141 Pleasantville Cottage School	X		Currently can't locate

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23M5421	Hub	Pleasantville - Westchester County	X			Currently can't locate
0104010	Printer	89-30 161st Street Jamaica - Queens County		X		FOUND Site B01 -- pinged
0104728	Printer	192 East 151st Street Bronx - Bronx County	X			Currently can't locate SITE K00 3RD FL Foster Care IP
0103836	Printer	315 Wyckoff Avenue Brooklyn - Brooklyn County	X			Currently can't locate -- site has been deactivated SITE M1Y
0103056	Printer	119 West 31st Street New York - Manhattan County	X			SITE Q0F UNIT 10 4TH FLOOR
0103756	Printer	90-25 161st Street Jamaica Savings Bank Bldg Jamaica - Queens County	X		X	FOUND 40 NP LEVEL 51
78GCGZ5	Desktop Workstation	150 William Street New York - Manhattan County				Currently can't locate
23HK587	Desktop Workstation	36-38 Main Street Binghamton - Broome County	X			
78GCBC2	Desktop Workstation	349 East 149th Street Bronx - Bronx County		X		FOUND -- PINGED - B0E 8TH FL FOUND SWAPPED OUT 75% replacement documentation avail
78GDCEB4	Desktop Workstation	150 William Street New York - Manhattan County		X		FOUND
78GCMN4	Desktop Workstation	site MOJ 1011 First Ave NY NY				
23WTFZ	Desktop Workstation	111 8th Avenue New York - Manhattan County	X			Currently can't locate
23HP046	Desktop Workstation	150 William Street New York - Manhattan County	X			Currently can't locate
78GDNV1	Desktop Workstation	605 Niagara Street Buffalo - Erie County	X			Currently can't locate
23HR257	Desktop Workstation	127 South Main Street Brookport - Monroe County			X	FOUND 9V5-014 RIVERVIEW
F017977	Printer	301 East 162nd Bronx - Bronx County	X			Site contact will verify
		478 Main Street Hens & Kelly Building		X		FOUND 5TH FLSITE 144 actual s/n USDF017977 UNIT ID 144EHA --

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F019489	Printer	Buffalo - Erie County Livingston County Campus Building 1 Mt. Morris - Livingston County	X			HP5SI Currently can't locate 2A4 actual s/n USDF019489 - HP5SI
78RBF91	Laptop	40 North Pearl Street Ten Eyck Building Albany - Albany County	X			Currently can't locate
78RAZ22	Laptop	40 North Pearl Street Ten Eyck Building Albany - Albany County	X			Currently can't locate
78PYT76	Laptop	112 East Post Road Building 2 White Plains - Westchester County	X			Currently can't locate
78RAX28	Laptop	185 Montague Street Brooklyn - Brooklyn County	X			Currently can't locate
78PZH71	Laptop	150 William Street New York - Manhattan County		X		FOUND 40 NP AREA 51
78PZX61	Laptop	150 William Street New York - Manhattan County	X			Currently can't locate
78PZX78	Laptop	150 William Street New York - Manhattan County	X			Returned Y2K Swapout
78RAZ49	Laptop	150 William Street New York - Manhattan County	X			Currently can't locate
78PYY71	Laptop	575 Lexington Avenue New York - Manhattan County		X		FOUND 40 NP AREA 51
78PZG99	Laptop	80 Lafayette Street New York - Manhattan County	X			Currently can't locate
78RAW04	Laptop	132 West 14th Street New York - Manhattan County	X			Currently can't locate
78RAT46	Laptop	40 North Pearl Street Ten Eyck Building Albany - Albany County	X			Currently can't locate
23D1266	Server	40 North Pearl Street Ten Eyck Building	X			transposed s/n actual 23d1260 SAGENCYUPSTATE3 40NP 3rd fl.

Enclosure

		Albany - Albany County				Description match/paperwork support
23D4409	Server	1 Blue Hill Plaza Pearl River NY	X			OLD SACS94 Contact Renato Reboa 845-627-8700 x108
23H0540	Server	150 William Street New York - Manhattan County			X	FOUND 40 NP 3RD FL SERVER NAME SNYSDSSMAIL6

ACKNOWLEDGMENTS

This report was prepared under the direction of Timothy J. Horgan (RIGAS). Other principal Office of Audit Services staff who contributed include:

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