



State of New Jersey

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Acting State Comptroller

November 6, 2014

Andrew P. Sidamon-Eristoff
State Treasurer
Department of the Treasury
PO Box 002
Trenton, New Jersey 08625

Re: Follow-Up Report F-12

Dear Treasurer Sidamon-Eristoff:

Pursuant to the State Comptroller's authority as set forth in *N.J.S.A. 52:15C-1 et seq.*, we have followed up on the actions taken by the Department of the Treasury (Treasury) to implement the recommendations contained in our audit report entitled *Disposition of Excess and Surplus Computer Equipment* (Report PA-12), issued on March 9, 2011. Our findings and conclusions are set forth below.

Background, Scope and Objective

Our initial audit found that multiple State agencies were not complying with the State's requirements concerning the disposition of excess and surplus computer equipment. For example, we found that State agencies had disposed of computer equipment without ensuring that data on the devices had been properly removed. We found data on such devices that was of a personal and confidential nature, including: completed tax returns; Social Security numbers; names, addresses and phone numbers of children placed outside of the parental home; a list of State computer sign-on passwords; and child abuse documentation including the names and addresses of the children. Many of these items were found on computers packaged for public auction.

In addition, we found that contrary to State requirements, agencies sent to Treasury's Division of Property Management and Construction (DPMC), Bureau of Special Services Warehouse, (Warehouse) shipments of computer equipment with no packing lists, no indication of the equipments' working order and no certification that the equipments' data had been removed. The shipments were accepted by the Warehouse.

We also found that more than 100 computers and more than 900 cellular telephones were redistributed to particular local governments and non-profits without following the requirements of State law to provide equal access to and broad notice concerning the availability of such equipment. This practice also violated the requirement that State agencies be afforded the right of first refusal concerning such equipment.

In response to our audit, on January 17, 2012 the Legislature enacted Public Law 2011, Chapter 225. The law imposed new requirements for the disposition of surplus computer equipment and other electronic devices capable of storing data. It also required the Director of the Department of the Treasury's Division of Purchase and Property (DPP), which is statutorily responsible for disposing of the State's surplus personal property, to report to the Governor and the Legislature the programs established to implement those requirements. That report was submitted on February 19, 2014.

The objective of our follow-up engagement was to determine if Treasury has implemented the 10 recommendations contained in our initial audit report. While our initial audit included personal desktop computers, laptop computers and smart phone communication devices, Treasury's revised circular letters and related policies and procedures include all electronic data storage, processing and retrieval devices. Accordingly, we have expanded our follow-up engagement to include such devices.

Summary Conclusion

We found that Treasury has made significant progress in implementing the recommendations set forth in our initial report. Of the 10 recommendations, 5 recommendations have been implemented, 2 recommendations have been partially implemented and 3 recommendations are no longer applicable.

Status of Initial Audit Recommendations

Recommendation 1

Enforce compliance with Circular Letter 00-17-DPP to ensure that all data is removed from State computer equipment before being sold to the public or donated.

Status: Partially Implemented

Effective April 15, 2013, DPP superseded Circular Letter 00-17-DPP with Circular Letter 13-18-DPP, *Disposition of Excess and Surplus Computer Equipment* and is to be used in conjunction with Circular Letter 09-10-NJOIT, *Information Disposal and Media Sanitization Policy*. Circular Letter 13-18-DPP requires that all storage devices be removed by the user agency prior to computer equipment being sent to surplus. Computer equipment as used in this Circular Letter encompasses all electronic data storage and processing and retrieval devices, and includes copiers, printers, facsimile machines and multi-function devices that have a non-volatile data storage capability. According to the Circular Letter, agencies sending surplus equipment to the Warehouse must complete a *Declaration of Removal of all Hard Drives and Other Data Storage Devices on Surplus Computer and other Electronic Devices (PB-180)* form and attach it to the shipment.

As part of our follow-up engagement, we opened 111 computers, 24 servers and 8 copiers that agencies had sent to the Warehouse to be sold at public auction. We found, contrary to the requirements of Circular Letter 13-18-DPP, 6 computer hard drives, 5 server hard drives and 1 printer hard drive. Each hard drive was tested to determine if any data was present. While the hard drives did not contain any confidential or sensitive data, we found files on one hard drive that we referred to the Office of the Attorney General, Division of Criminal Justice.

Upon advising Treasury of our findings, it indicated it would take steps to enforce compliance with the revised Circular Letter.

Recommendation 2

In consultation with OIT [the State Office of Information Technology], determine a data removal method that satisfies the State's data security requirements while minimizing any diminution in the value of the equipment.

Status: Implemented

On April 8, 2011, OIT published Circular Letter 09-10-NJOIT and Circular Letter 09-10-P1-NJOIT, *Information Disposal and Media Sanitization Procedure*. Circular Letter 09-10-NJOIT requires that agencies remove and destroy media capable of storing data, such as hard drives and removable storage devices, prior to sending surplus computers to the Warehouse. According to Circular Letter 09-10-P1-NJOIT, when purging or destroying media, agencies are required to complete a PB-180 form. Agencies can avail themselves of drive destruction services through the use of a media shredder located at the Warehouse by completing an *E-Shredding Approval of Surplus Hard Drives and Other Data Storage/Electronic Devices* form.

Recommendation 3

Ensure that equipment still under warranty is not sold at auction as scrap.

Status: Implemented

During our initial audit, we found that four computers that were packaged for sale at an auction for scrap were still covered by the vendor's warranty. We contacted the agency that sent the four computers to the Warehouse. Agency personnel told us that the computers had been sent to the Warehouse in error. Treasury indicated that since the equipment was procured by the using agencies, only that agency has the ability to assess whether a piece of equipment has outlived the warranty provisions.

As part of our follow-up engagement, using the manufacturer's website, we verified the warranty status of 61 computers sent to the warehouse for auction. None of the computers were under warranty.

Recommendation 4

Require agencies to notify the Warehouse when they intend to send a shipment of equipment to the Warehouse, and to include with any shipment a detailed packing list, a certification of data removal and a description of the functional status of the equipment. Monitor compliance with these requirements.

Status: Implemented

According to Circular Letter 13-18-DPP, agencies must notify DPP's Surplus Property Unit or DPMC's Warehouse of computer equipment they wish to declare as surplus. Notification consists of completing and forwarding Form PB-160, *Excess/Surplus Property Notice*, or the agency's own inventory, asset or property disposal form. We note that instead of submitting the PB-160 form or the agency's own form, the Warehouse allows agencies to send an e-mail requesting that equipment be surplus. In addition, each unit of equipment capable of storing data must be certified using Form PB-180, which must be signed by the agency's Chief Technology Officer or his or her designee. When the Warehouse receives a shipment, if any storage device is found or if the physical count does not match the PB-180 count, the entire shipment must be rejected.

As part of our follow-up engagement, we observed Warehouse staff receive a shipment and count the machines to verify that the receipt quantity and the number on the PB-180 form matched. The Warehouse staff determined that the agency's count was accurate and no action was required.

Recommendation 5

Develop and maintain an appropriate system of control over equipment and periodically conduct reviews to ensure that it is operating as intended.

Status: Implemented

DPMC has strengthened the Warehouse's security procedures to require visitor sign-in and has moved two outside agencies out of the first floor, where the surplus computers are stored pending disposition. Warehouse staff provided us with previously submitted PB-180 forms and detailed auction summary lists from Fiscal Year 2013 and Fiscal Year 2014. DPP indicated that

considering the minimal residual value of the surplus, it would be cost prohibitive to implement an inventory control system of the surplus items.

Recommendation 6

Develop a reliable contact list for all State agencies and follow a standard contact process to ensure that the maximum benefit from surplus equipment is realized by the State.

Status: No Longer Applicable

At the time of our initial audit, Warehouse staff was required to notify State agencies of the availability of surplus equipment. However, we found that there was no State agency contact list of individuals to be notified.

According to Circular Letter 13-18-DPP, as well as the report Treasury submitted to the State Legislature and DPMC's Distribution and Support Services' (DSS) website, the redistribution program is no longer active as destroying the hard drive essentially renders the computer useless to the State. However, in conjunction with OIT, Warehouse management has developed a list of Chief Information Officers that is updated periodically. This list is used to verify that the person who signs the PB-180 form is authorized to do so.

Recommendation 7

Ensure that equipment is provided to local governments and non-profits only through the prescribed donation program.

Status: No Longer Applicable

Surplus computers are no longer offered to local government units, boards of education, nonpublic schools or nonprofit charitable corporations for reuse. As noted above concerning Recommendation 6, according to Circular Letter 13-18-DPP, the report Treasury submitted to the State Legislature and DPMC's DSS website, the redistribution program is no longer active.

Recommendation 8

Evaluate and allocate the appropriate resources to the Warehouse to meet the goals of the surplus program and provide adequate controls.

Status: Implemented

During our initial audit, we noted that much of the computer disposition process and related controls at the Warehouse were executed by a single individual, with some assistance from participants from a career training program operated by the State's Juvenile Justice Commission, (JJC).

Treasury has devoted more resources to staffing the Warehouse. It currently has 4 full-time employees, 16 participants from the JJC and 1 JJC supervisor. As surplus computers are no longer redistributed, the operation now entails, for the most part, only accepting and preparing electronic equipment for auction.

Recommendation 9

Develop a system to track the financial benefits of the computer redistribution program.

Status: No Longer Applicable

As noted above concerning Recommendation 6, the redistribution program is no longer active.

Recommendation 10

Determine appropriate processes concerning excess and surplus computer equipment and update policies, procedures and Circular Letters accordingly. Monitor adherence thereto.

Status: Partially Implemented

As noted above concerning Recommendations 1 and 2, Treasury has issued updated policies, procedures and Circular Letters concerning the disposition of excess and surplus equipment. To comply with the new process, DPP performs a physical count of shipments, and now requires visitors to sign-in before entering the Warehouse. To track the inventory sold, Warehouse staff keeps detailed auction summary lists of the computers auctioned.

While DPP has made significant procedural changes, we found a lack of compliance with certain aspects of the new requirements. For example, we found 12 hard drives during our testing that had been sent by agencies to the warehouse for sale in contravention of the requirement that the storage devices be removed.

Upon advising Treasury of our findings, it indicated it would strengthen its monitoring of the updated policies, procedures and Circular Letters.

Reporting Requirements

We provided a draft copy of this report to Treasury officials for their review and comment. Their comments were considered in preparing our final report and are attached as Appendix A.

Treasury's response disagreed with our conclusion that Recommendations 1 and 10 were "Partially Implemented", indicating that it was the agency owners of the units that did not follow Treasury's policies. Nevertheless, Treasury outlined specific steps it will take to increase scrutiny of agencies' adherence to its policies.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, Treasury shall report periodically to this Office advising what additional steps it has taken to address the unresolved issues in this report. This Office will continue to monitor those steps.

We thank the management and staff of Treasury for the courtesies and cooperation extended to our auditors during this engagement.

Very truly yours,



William P. Challice, CIA, CFE, CGFM
Director, Audit Division

c: Robert Romano, Deputy State Treasurer
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Location:
33 W. STATE STREET
TRENTON, NJ

October 9, 2014

Mr. William Challice
Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Dear Mr. Challice:

Thank you for providing the Department of the Treasury with an opportunity to respond to your follow-up report on the March 9, 2011 audit of the Division of Purchase and Property (DPP) and the Division of Property Management and Construction (DPMC) regarding the disposition of surplus computer equipment.

As noted in your report, in response to the 2011 audit, Treasury has revised its policy and procedures for the disposition of surplus computer equipment by issuing Circular Letter 13-18-DPP. Owning agencies must now remove all hard drives and other data storage devices before turning over their computers, copiers and other electronic devices for disposal as surplus and must dispose of the storage devices in accordance with OIT Circular 09-10-NJOIT. Each shipment of surplus computers must be accompanied by a Declaration of Removal of all Hard Drives and Other Data Storage Devices on Surplus Computer and other Electronic Devices (PB-180), which must be certified by the owning Department's Information Technology Officer.

Treasury is concerned with and disagrees with OSC's characterization of Treasury's response to two of the audit recommendations as only "Partially Implemented." These are:

- Recommendation 1. Enforce compliance with Circular Letter 00-17-DPP to ensure that all data is removed from State computer hard drives before being sold to the public or donated.
- Recommendation 10. Develop appropriate processes concerning excess and surplus computer equipment and update policies, procedures and Circular Letters accordingly. Monitor adherence thereto.

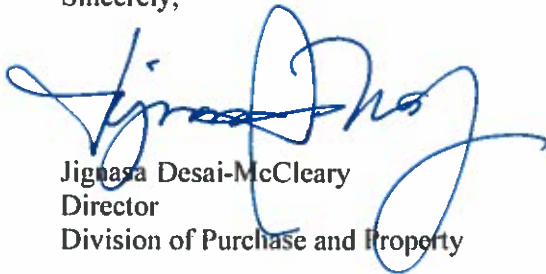
This Partially Implemented designation of Treasury's response is misplaced. It seems to be based upon certain agencies' noncompliance with the DPP and OIT Circular Letters, as documented by OSC's finding that some agencies have recently shipped equipment with intact hard drives to the First Avenue warehouse for disposal. Yet each of these shipments was accompanied by the required certification of removal from the agency.

As a result of the 2011 audit report, Treasury considered responses ranging from improved data storage device sanitization to device removal and destruction. Recognizing the importance of data confidentiality, we ultimately adopted, with OIT concurrence, the most stringent approach, removal and destruction. Treasury requires certification by each Department's Information Technology Officer (ITO).

We monitor compliance both by confirming that certification is in place for every surplus computer turned over to Treasury and through random inspection of units received. Thus Treasury believes it has completely and thoroughly implemented these recommendations, and would point out that it is the agency owners of those units with intact drives which have not properly followed Treasury's more stringent policy and procedure.

As noted in both the Circular Letter and in Treasury's response to your initial audit, the responsibility for data protection must ultimately rest with the owning agencies because they are the owners and stewards of both the hardware and the data it may contain. It was our hope and belief that the requirement for ITO certification would ensure that the data owners recognize the importance of this issue and act accordingly. We too are troubled by your finding that some have not. Thus, in addition to random inspections of incoming units, Treasury will now implement a risk-based approach, giving additional scrutiny to receipts from agencies known to have shipped units with intact storage devices. If repeat violations occur, Treasury will require the offending Department to develop and submit a corrective action plan prior to allowing further shipments.

Sincerely,



Jignasa Desai-McCleary
Director
Division of Purchase and Property



Steven Sutkin
Director
Division of Property Management and Construction