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**YEAR 2000 COMPUTING
CHALLENGE**

**Delivery of Key Benefits
Hinges on States'
Achieving Compliance**

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G A O

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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to participate in today's hearing on the Year 2000 challenge facing state and local governments and on H.R. 1599, a bill that would authorize state and local governments to purchase information technology through the federal government to address the Year 2000 problem. Just as the federal government faces significant Year 2000 risks, so too do state and local governments. If the Year 2000 problem is not properly addressed, for example, (1) food stamps and other types of payments may not be made or could be made for incorrect amounts, (2) date-dependent signal timing patterns could be incorrectly implemented at highway intersections, with safety severely compromised, and (3) prisoner release or parole eligibility determinations may be adversely affected.

As requested, today I will (1) highlight the reported Year 2000 readiness of state and local governments and actions taken by the President's Council on Year 2000 Conversion¹ in this area, (2) discuss the readiness and federal activities associated with state-administered federal programs, and (3) offer our observations on H.R. 1599, the Year 2000 Compliance Assistance Act.

Year 2000 Risks of State and Local Governments

Available information on the Year 2000 readiness of state and local governments indicates that much work remains. The successful completion of the Year 2000 efforts of these governments is essential, since they perform critical functions in areas such as public safety and benefits payments.

According to information on state Year 2000 activities reported to the National Association of State Information Resource Executives as of

¹The President tasked the Chair of the President's Council on Year 2000 Conversion with (1) overseeing the activities of agencies, (2) acting as chief spokesperson in national and international forums, (3) providing policy coordination of executive branch activities with state, local, and tribal governments, and (4) promoting appropriate federal roles with respect to private-sector activities.

June 17, 1999,² states³ reported having thousands of mission-critical systems.⁴ With respect to completing the implementation phase for these systems,

- 5 states⁵ reported that they had completed between 25 and 49 percent,
- 13 states⁶ reported completing between 50 and 74 percent, and
- 30 states⁷ reported completing 75 percent or more.⁸

All of the states responding to the National Association of State Information Resource Executives survey reported that they are actively engaged in internal and external contingency planning and that they had established target dates for the completion of these plans; 14 (28 percent) reported the deadline as October 1999 or later.

State audit organizations have also identified significant Year 2000 concerns. In January 1999, the National State Auditors Association reported on the results of its mid-1998 survey of Year 2000 compliance among states.⁹ This report stated that for the 12 state audit organizations that provided Year 2000-related reports, concerns had been raised in areas such as planning, testing, embedded systems, business continuity and contingency planning, and the adequacy of resources to address the problem.

²Individual states submit periodic updates to the National Association of State Information Resource Executives. For the June 17 report, over half of the states submitted their data in May and June 1999. The oldest data were provided on March 4 and the most recent data on June 16. All but three states responded to the survey.

³In the context of the National Association of State Information Resource Executives survey, the term “states” includes the District of Columbia, Guam, and Puerto Rico.

⁴The National Association of State Information Resource Executives defined mission-critical systems as those that a state had identified as priorities for prompt remediation.

⁵Three states reported on their mission-critical systems, one state reported on its processes, and one reported on its functions.

⁶Eleven states reported on their mission-critical systems, one reported on all systems, and one reported on projects.

⁷Twenty-five states reported on their mission-critical systems, two states reported on their applications, one reported on its “priority business activities”, one reported on its “critical compliance units”, and one reported on all systems.

⁸Of the states that responded to the survey, two did not respond to this question.

⁹Year 2000: State Compliance Efforts (National State Auditors Association, January 1999).

We identified additional products by 14 state-level audit organizations and Guam that discussed the Year 2000 problem and that had been issued since October 1, 1998. Several of these state-level audit organizations noted that progress had been made. However, the audit organizations also expressed concerns that were consistent with those reported by the National State Auditors Association. For example:

- In December 1998 the Vermont State Auditor reported¹⁰ that the state Chief Information Officer did not have a comprehensive control list of the state's information technology systems. Accordingly, the audit office stated that, even if all mission-critical state systems were checked, these systems could be endangered by information technology components that had not been checked or by linkages with the state's external electronic partners.
- In April 1999, New York's Division of Management Audit and State Financial Services reported that state agencies did not adequately control the critical process of testing remediated systems.¹¹ Further, most agencies were in the early stages of addressing potential problems related to data exchanges and embedded systems and none had completed substantive work on contingency planning. The New York audit office subsequently issued seven reports on 13 of the state's mission-critical and high-priority systems that included concerns about contingency planning and testing.
- In February 1999, the California State Auditor reported¹² that key agencies responsible for emergency services, corrections, and water resources, among other areas, had not fully addressed embedded technology-related threats. Regarding emergency services, the California report stated that if remediation of the embedded technology in its networks were not completed, the Office of Emergency Services might have to rely on cumbersome manual processes, significantly increasing response time to disasters.

¹⁰Vermont State Auditor's Report on State Government's Year 2000 Preparedness (Y2K Compliance) for the Period Ending November 1, 1998 (Office of the State Auditor, December 31, 1998).

¹¹New York's Preparation for the Year 2000: A Second Look (Office of the State Comptroller, Division of Management Audit and State Financial Services, Report 98-S-21, April 5, 1999).

¹²Year 2000 Computer Problem: The State's Agencies Are Progressing Toward Compliance but Key Steps Remain Incomplete (California State Auditor, February 18, 1999).

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- In March 1999, Oregon's Audits Division reported¹³ that 11 of the 12 state agencies reviewed did not have business continuity plans addressing potential Year 2000 problems for their core business functions.
 - In March 1999, North Carolina's State Auditor reported¹⁴ that resource restrictions had limited the state's Year 2000 Project Office's ability to verify data reported by state agencies.

It is also critical that local government systems be ready for the change of century since critical functions involving, for example, public safety and traffic management, are performed at the local level. Recent reports on local governments have highlighted Year 2000 concerns. For example:

- The National League of Cities conducted a poll during its annual conference in March 1999 that included over 400 responses. The poll found that (1) 340 respondents stated that over 75 percent of their cities' critical systems would be Year 2000 compliant by January 1, 2000, (2) 35 stated that 51 to 75 percent would be compliant, (3) 16 stated that 25 to 50 percent would be compliant, and (4) 16 stated that less than 25 percent would be compliant. Moreover, 34 percent of respondents had contingency plans, 46 percent stated that they were in the process of developing plans, 12 percent stated that plans would be developed, and 8 percent said they did not intend to develop contingency plans.
- In January 1999, the United States Conference of Mayors reported on the results of its survey of 220 cities. It found that (1) 97 percent had citywide plans to address Year 2000 issues, (2) 22 percent had repaired or replaced less than half of their systems, and (3) 45 percent had completed less than half of their testing.

The National Association of Counties has announced that it plans to release later today the results of its latest survey of 500 counties, which should provide additional information on the readiness of local governments.

Of critical importance to the nation are services essential to the safety and well-being of individuals across the country, namely 9-1-1 systems and law enforcement. For the most part, responsibility for ensuring continuity of

¹³Department of Administrative Services Year 2000 Statewide Project Office Review (Secretary of State, Audits Division, State of Oregon Report No. 99-05, March 16, 1999).

¹⁴Department of Commerce, Information Technology Services Year 2000 Project Office (Office of the State Auditor, State of North Carolina, March 18, 1999).

service for 9-1-1 calls and law enforcement resides with thousands of state and local jurisdictions. On April 29, we testified that not enough was known about the status of either 9-1-1 systems or of state and local law enforcement activities to conclude about either's ability during the transition to the year 2000 to meet the public safety and well-being needs of local communities across the nation.¹⁵ While the federal government planned additional actions to determine the status of these areas, we stated that the President's Council on Year 2000 Conversion should use such information to identify specific risks and develop appropriate strategies and contingency plans to respond to those risks.

Recognizing the seriousness of the Year 2000 risks facing state and local governments, the President's Council on Year 2000 Conversion has developed initiatives to address the Year 2000 readiness of state and local governments. For example:

- The Council established working groups on state and local governments and tribal governments.
- Officials from the Council participate in monthly multistate conference calls.
- In July 1998 and March 1999, the Council partnered with the National Governors' Association to convene Year 2000 summits with state and U.S. territory Year 2000 coordinators.
- On May 24, the Council announced a nationwide campaign to promote "Y2K Community Conversations" to support and encourage efforts of government officials, business leaders, and interested citizens to share information on their progress. To support this initiative, the Council has developed and is distributing a toolkit that provides examples of which sectors should be represented in these events and the issues that should be addressed.

State-Administered Federal Human Services Programs Are at Risk

Among the critical functions performed by states are the administration of federal human services programs. As we reported in November 1998, many systems that support state-administered federal human services programs were at risk and much work remained to ensure that services would continue.¹⁶ In February of this year, we testified that while some progress

¹⁵Year 2000 Computing Challenge: Status of Emergency and State and Local Law Enforcement Systems Is Still Unknown (GAO/T-AIMD-99-163, April 29, 1999).

¹⁶Year 2000 Computing Crisis: Readiness of State Automated Systems to Support Federal Welfare Programs (GAO/AIMD-99-28, November 6, 1998).

had been achieved, many states' systems were not scheduled to become compliant until the last half of 1999.¹⁷ Accordingly, we concluded that given these risks, business continuity and contingency planning was even more important in ensuring continuity of program operations and benefits in the event of systems failures.

Subsequent to our November 1998 report, the Office of Management and Budget (OMB) directed federal oversight agencies to include the status of selected state human services systems in their quarterly reports. Specifically, in January 1999, OMB requested that the agencies describe actions to help ensure that federally supported, state-run programs will be able to provide services and benefits. OMB further asked that agencies report the date when each state's systems will be Year 2000 compliant. Tables 1 and 2 summarize the information gathered by the Departments of Agriculture and Health and Human Services, respectively, on the compliance status of state-level organizations. The information indicates that a number of states do not plan to complete their Year 2000 efforts until the last quarter of 1999.

**Table 1: Reported State-Level Readiness for Federally Supported Programs—
Department of Agriculture, May 1999**

Program	Compliant	Apr.- June	July- Sept.	Oct.- Dec.	Unknown ^a
Food Stamps	25	12	14	3	0
Child Nutrition	29	9	10	4	2
Women, Infants, and Children	33	11	7	3	0

^aUnknown indicates the state did not provide a date or the date was unknown.

Note: This table contains readiness information from the 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

Source: Department of Agriculture.

¹⁷Year 2000 Computing Crisis: Readiness of State Automated Systems That Support Federal Human Services Programs (GAO/T-AIMD-99-91, February 24, 1999).

**Table 2: Reported State-Level Readiness for Federally Supported Programs—
Department of Health and Human Services, January 1999**

Program	Compliant ^a	Jan.- Mar.	Apr.- June	July- Sept.	Oct.- Dec.	Unknown ^b	N/A ^c
Child Care	24	5	5	8	2	6	4
Child Support Enforcement	15	4	13	8	8	6	0
Child Welfare	20	5	9	11	3	5	1
Low Income Housing Energy Assistance Program	10	0	3	7	1	32	1
Medicaid — Integrated Eligibility System	20	0	15	15	4	0	0
Medicaid — Management Information System	17	0	19	14	4	0	0
Temporary Assistance for Needy Families	19	3	12	15	1	4	0

^aIn many cases, the report indicated a date instead of whether the state was compliant. We assumed that states reporting completion dates in 1998 or earlier were compliant.

^bUnknown indicates that according to OMB, the data reported by the states were unclear or that no information was reported by the agency.

^cN/A indicates that the states or territories reported that the data requested were not applicable to them.

Note: This table contains readiness information from the 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

Source: Progress on Year 2000 Conversion: 9th Quarterly Report (OMB, issued on June 15, 1999).

In addition, in June 1999, OMB reported that as of March 31, 1999, 27 states' unemployment insurance systems were compliant, 11 planned to be completed between April and June 1999, 10 planned to be completed between July and September, and 5 planned to be completed between October and December.

Agencies Are Addressing Year 2000 Issues of State-Administered Programs

On March 26, 1999, OMB issued a memorandum to federal agencies designating lead agencies for the government's 42 high-impact programs. (OMB later added a 43rd high-impact program.) About a quarter of the federal government's programs designated as high impact by OMB are state-administered, such as Food Stamps and Temporary Assistance for Needy Families.

For each program, the lead agency was charged with identifying to OMB the partners integral to program delivery; taking a leadership role in convening those partners; assuring that each partner has an adequate Year 2000 plan and, if not, helping each partner without one; and developing a plan to ensure that the program will operate effectively. According to OMB, such a plan might include testing data exchanges across partners, developing complementary business continuity and contingency plans, sharing key information on readiness with other partners and the public, and taking other steps necessary to ensure that the program will work. OMB directed the lead agencies to provide a schedule and milestones of key activities in the plan by April 15. OMB also asked agencies to provide monthly progress reports.

In response to the March memorandum regarding the high-impact programs, the Departments of Agriculture, Health and Human Services, and Labor reported on various actions that they are taking or plan to take to help ensure the Year 2000 compliance of their state-administered programs. For example:

- The Department of Agriculture reported in May 1999 that its Food and Nutrition Service requested that states provide their contingency plans and had contracted for technical support services to review these plans, as needed, and to assist in its oversight of other state Year 2000 activities.
- The Department of Health and Human Services reported that its Administration for Children and Families and Health Care Financing Administration had contracted for on-site assessments of state partners, which will include reviews of business continuity and contingency plans.
- The Department of Labor reported that states are required to submit a certification of Year 2000 compliance for their benefit and tax systems along with an independent verification and validation report. In addition, Labor required that state agencies prepare business continuity and contingency plans, which will be reviewed by Labor officials. Further, the department plans to design and develop a prototype PC-based system to be used in the event that a state's unemployment insurance system is unusable due to a Year 2000-induced problem.

An example of the benefits that federal/state partnerships can provide is illustrated by the Department of Labor's unemployment services program. In September 1998, we reported that many State Employment Security Agencies were at risk of failure as early as January 1999 and urged the

Department of Labor to initiate the development of realistic contingency plans to ensure continuity of core business processes in the event of Year 2000-induced failures.¹⁸ Just last month, we testified that four state agencies systems could have failed if systems in those states had not been programmed with an emergency patch in December 1998. This patch was developed by several of the state agencies and promoted to other state agencies by the Department of Labor.¹⁹

The important services that state and local governments provide to the nation's citizens warrant actions such as these to help states ensure that critical human services will be successfully transitioned to the next century. Indeed, additional actions may be needed to provide further assurance that disruptions will be minimized.

Observations on H.R. 1599, the Year 2000 Compliance Assistance Act

To provide an additional option to state and local governments in their Year 2000 efforts, on April 28 1999, Congressman Thomas M. Davis introduced H.R. 1599, the Year 2000 Compliance Assistance Act. This bill, if enacted, would amend the Federal Property and Administrative Services Act of 1949 to authorize state and local governments to purchase information technology related to Year 2000 conversion through specific federal supply schedules. In particular, it states that

- the General Services Administration (GSA) may allow state and local governments to use federal supply schedules for automated data processing equipment (including firmware), software, supplies, support equipment, and services (as contained in federal supply classification code group 70) related to the Year 2000 computer conversion;
- participation by firms that sell through the federal supply schedule shall be voluntary with respect to a sale to the state or local governments; and
- the authority provided would expire on December 31, 2002.

Cooperative Purchasing Previously Authorized, Suspended, and Repealed

GSA's Federal Supply Service negotiates and awards contracts for information technology products and services as well as other goods and services available through the federal supply schedules. Federal agencies

¹⁸Year 2000 Computing Crisis: Progress Made at Department of Labor, But Key Systems at Risk (GAO/T-AIMD-98-303, September 17, 1998).

¹⁹Year 2000 Computing Challenge: Labor Has Progressed But Selected Systems Remain at Risk (GAO/T-AIMD-99-179, May 12, 1999).

order products and services directly from vendors on a schedule and pay the vendors directly. In fiscal year 1998, there were about 140 federal supply schedules and sales totaled \$8.1 billion. GSA reported that about three-quarters of the contracts awarded under the program were to small businesses.

Under the cooperative purchasing program authorized by section 1555 of the Federal Acquisition Streamlining Act of 1994, the Administrator of GSA was permitted to allow state and local governments, the government of the Commonwealth of Puerto Rico, and Indian tribal governments to purchase items available through federal supply schedules. Participation by vendors was to be voluntary. Subsequent concerns were raised about the purchasing program from several industries that because of either their market structure or other factors, they would be subject to adverse effects from cooperative purchasing. As a result, in 1996 the Congress suspended GSA's authority for this program. The Congress also required that we assess the effects cooperative purchasing may have on state, local, tribal, Puerto Rican, and federal governments and on industry, including small businesses and local dealers. Our subsequent February 1997 report²⁰ found the following.

- Cooperative purchasing would not be likely to adversely affect the federal government if GSA would exclude schedules from the program when adverse effects are indicated. At that time, information technology services were not available on the schedule. Today, both information technology goods and services are available. Whether cooperative purchasing would have positive effects on the federal government depends largely on whether increased use of the schedules by state and local governments would lead to lower prices and reduced administrative charges by GSA. It is unclear whether either of these would occur.
- The potential effects of the cooperative purchasing program were likely to vary among state, local, and the Puerto Rican governments. Some of these governments may experience benefits such as cost savings and a reduction in the time to procure items. However, several factors such as state or local laws, ordinances, or policies that direct how or where state or local purchases can be made could limit the extent of these benefits.

²⁰Cooperative Purchasing: Effects Are Likely to Vary Among Governments and Businesses (GAO/GGD-97-33, February 10, 1997).

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- The potential effects of the cooperative purchasing program on industry, including small businesses and dealers, were also likely to vary, although sufficient data were not available to conclusively predict these effects. Some businesses expected to benefit from increased sales or reduced administrative costs, while others expected to lose sales or have lower profits. Still other businesses did not believe that they would be affected by the program. Most of the concerns that businesses expressed about significant adverse effects involved only a few GSA schedules, such as fire-fighting vehicles, airline services, and construction and highway maintenance equipment.
 - Cooperative purchasing's effect on all parties also depends on how GSA implements the program and, at the time of our review, GSA's implementation plan was still evolving. Details such as whether federal or state prompt payment provisions would apply and controls against program abuse were uncertain. To address these issues, we recommended that GSA develop a detailed implementation plan, including how GSA intended to evaluate the program, so that the Congress and others would know how GSA intended the program to work. GSA concurred with this recommendation.

In late 1997, the Congress repealed the part of the Federal Acquisition Streamlining Act of 1994 which permitted GSA to allow state and local governments to use the federal supply schedules.²¹ However, in certain cases, the Congress has allowed use of the schedules program beyond federal agencies. For example, in 1993, the Congress authorized state and local law enforcement agencies involved in counter-drug activities to use the schedules program.²²

Potential Benefits of Allowing State and Local Governments to Use the Information Technology Schedule

GSA's information technology schedule offers a variety of goods and services that could prove helpful to state and local governments, such as business continuity and contingency planning services. As of June 18, 1999, GSA's schedule 70 (information technology) listed 1,818 vendors, of which 291 were specifically designated as "vendors who have millennium conversion (Y2K) products and/or services." According to GSA, about 76 percent (220) of the vendors that provided Year 2000 products and services were small businesses.

²¹Public Law 105-61, October 10, 1997.

²²Public Law 103-160, November 30, 1993.

Although state and local governments have in the past expressed interest in having access to GSA's schedules the extent to which they would use it is uncertain. Factors that could limit state and local government use of the schedule include, in some instances, lack of authority in their laws or ordinances, in-state or local purchasing preferences, and possibly higher prices on the schedule for some items. On the other hand, state and local governments could benefit to the extent that they could acquire needed information technology goods and services at lower prices more quickly, and/or with less administrative burden than they otherwise could.

In particular, access to the information technology schedule would provide states with an additional tool for obtaining essential Year 2000-related products and services. Such tools may be especially welcomed by states and localities that do not plan to have essential programs Year 2000 compliant until the last quarter of the year and are, therefore, at greater risk of service disruption. Still, this bill would be most useful if implemented expeditiously because of the limited time remaining until the change of century. If implemented expeditiously, states could still have time to use the federal supply schedule to obtain help in areas such as the development of business continuity and contingency plans.

Another consideration is the effect of opening the information technology schedule on businesses. Those that would choose to participate could benefit from increased market exposure and sales and lower administrative costs to the extent that they would not have to prepare separate bid proposals for state and local governments for purchases through the schedule. This could also benefit the federal government should participating vendors lower their prices for the schedule items due to the higher sales volume and lower administrative burden. The federal government would also benefit from the 1 percent administrative fee charged for schedule purchases to cover GSA's administrative expenses.

On the other hand, some businesses that are not schedule vendors that supply information technology goods and services to state and local governments could lose some or all of this business to schedule vendors. The extent that this would happen and the effects it would have on the vendors are uncertain. However, information technology firms were not included among the groups that raised major concerns about the cooperative purchasing program.

Notwithstanding the concerns raised by vendors, the Congress should balance these issues against the extraordinary circumstances facing the nation because of the Year 2000 problem. The bill would provide state and local governments with an additional option that could assist them in completing key Year 2000 tasks in time. Moreover, some of these concerns may be reduced by the limited nature of the bill and because vendor and state and local government participation would be voluntary. Some concerns may also be reduced if GSA were to publish implementation plans describing how the bill would be implemented, including a provision for monitoring the implementation so that any significant adverse effects could be promptly identified and mitigated.

In summary, much work remains at the state and local levels to ensure that major service disruptions do not occur. In particular, several states do not plan to have their systems that support state-administered federal programs Year 2000 compliant until the last quarter of 1999. Federal agencies are working with their state partners to obtain readiness information and evaluate key activities such as business continuity and contingency plans. Nevertheless, some state completion dates are so close to the turn of the century that the risk of disruption to their programs is substantially increased, especially if schedule delays occur or if unexpected problems arise. Accordingly, creative solutions such as allowing state and local governments access to federal supply schedules for Year 2000 purposes, as called for by H.R. 1599, may well be warranted.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions that you or other members of the Subcommittee may have at this time.

Contacts and Acknowledgments

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