

II FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 ISSUES

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget.

An executive directive, issued in February 1998, directed all executive branch agencies to make the year 2000 issue the number one priority. As a result, the State developed a comprehensive risk management program that identified risks faced by the State concerning year 2000 operability.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- (1) Awareness stage – encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- (2) Assessment stage – when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- (3) Remediation stage – when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.
- (4) Validation/Testing stage – when the organization validates

and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The State identified 667 computer applications, primarily within the executive branch, that are critical to conducting the State's operations and that need to be year 2000 compliant. The Year 2000 Project Office has also received written assurance from agencies whose critical applications are being evaluated by outside vendors.

The State's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation, including tax collections, investment activities, and timely payment of its obligations. As of September 30, 1999, the State had validated, fixed, and tested 100% of the 667 mission critical computer applications and 98% of the 462 less critical systems.

The Legislature appropriated \$55.6 million to assist agencies in obtaining external resources to address year 2000 issues. As of September 30, 1999, the State had expended \$31.7 million of the appropriation. There were no significant commitments (contracts) outstanding with vendors on September 30, 1999.

Management believes that the State will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that the State's remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be year 2000 ready.