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# Review of Michigan Guaranty Agency's Year 2000 Readiness

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## MANAGEMENT INFORMATION REPORT



Control Number ED-OIG/A05-90047  
October 1999

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U.S. Department of Education  
Office of Inspector General  
Chicago, Illinois

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**Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determination of corrective action to be taken will be made by appropriate Department of Education officials. In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.**



UNITED STATES DEPARTMENT OF EDUCATION

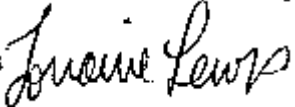
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR

October 29, 1999

MEMORANDUM

TO: Greg Woods  
Chief Operating Officer

FROM: Lorraine Lewis 

SUBJECT: *Review of Michigan Guaranty Agency's Year 2000 Readiness*, Control Number

Attached is our Management Information Report that informs you of the results of our review of Michigan Guaranty Agency's (Michigan) Year 2000 readiness. This Management Information Report is intended to provide information for decision makers and is not an audit or investigative report. Michigan relies on several service providers for systems, services, and technology. Our objective was to ensure that Michigan is adequately monitoring the Year 2000 readiness efforts of its service providers and those systems that affect it. Our evaluation indicated that Michigan is

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If you have any questions concerning this report, please call Richard J. Dowd, Regional Inspector

Attachme

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## Executive Summary

Our evaluation indicated that the Michigan Guaranty Agency (Michigan) is adequately monitoring the progress of its service providers' Year 2000 readiness efforts. Michigan relies on several service providers for all of its systems, services, and technology. Therefore, Michigan's Year 2000 readiness efforts consist of monitoring the progress of its service providers in achieving Year 2000 readiness for those systems that affect Michigan.

Michigan contracts with USA Group for guarantee services and automated information processing. The Michigan Department of Treasury (Treasury) performs a portion of the post-default loan collection activity for Michigan using Treasury's system and an outside collection agency. Treasury also provides Michigan with equipment and software. The Michigan Department of Management and Budget (DMB) provides Michigan with several services.



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The U.S. Department of Education (ED) has a responsibility to ensure that all of its computer systems and the interfaces between them and the systems of its trading partners are ready to handle data that includes dates both before and after January 1, 2000. ED has issued various publications to reinforce the seriousness of Year 2000 compliance and the critical milestone dates for each of the five phases set forth by the Office of Management and Budget and the General Accounting Office. The designated phases for a Year 2000 readiness plan are awareness, assessment, renovation, validation, and implementation (with on-going contingency planning throughout the entire project).

We conducted on-site field work at the Michigan Guaranty Agency in Lansing, Michigan from July 13 - 15, 1999, and at USA Group in Fishers, Indiana from July 20 - 21, 1999. We examined documentation and interviewed officials at Michigan and USA Group supporting Michigan's Year 2000 monitoring efforts and USA Group's Year 2000 readiness efforts. We also conducted telephone interviews with Booz-Allen & Hamilton officials and reviewed their reports. Booz-Allen & Hamilton is the Year 2000 readiness evaluation contractor for ED's Guarantor and Lender Oversight Service (GLOS). This Management Information Report is intended to provide information for decision makers and is not an audit or investigative report.

## On-Site Review Observations

Michigan relies on several service providers for all systems, services, and technology to perform its functions as a guaranty agency. Michigan accesses and updates data on the systems of these service providers but Michigan does not own or maintain any of the systems that are critical to its operations. However, Michigan is responsible for monitoring the progress of these providers in achieving Year 2000 readiness for those systems that affect it.

### **Management Approach**

Michigan is a component of the Michigan Higher Education Assistance Authority which is part of Treasury. Michigan is the designated guarantor for the State of Michigan with respect to the Federal Family Education Loan (FFEL) Program. Since Michigan does not own or maintain any of its systems, Michigan's approach to Year 2000 readiness is to monitor the efforts of its service providers.

Michigan obtained information and periodic updates on the Year 2000 readiness efforts of its service providers. This information included certifications of Year 2000 compliance, Year 2000 project plans for its service providers, and lists of all systems involved in guarantee processing. Michigan also contacted all of its school, lender, and servicer partners for basic information on their Year 2000 readiness.

### *USA Group Provides Most Guarantee Services*

Michigan contracts with USA Group for most guarantee services and automated information processing. This includes loan origination, disbursement, lender repayment, and the first 60 days of post-default loan collection. USA Group owns and maintains the systems which Michigan accesses from its offices in Lansing, Michigan. USA Group is a nonprofit company that provides a wide array of education loan services including guarantor servicing through its USA Group Guarantee Services affiliate. USA Group has offices in Indianapolis and Fishers, Indiana.

### *Treasury Provides Some Post-default Loan Collection and Other Services*

After the first 60 days of post-default loan collection, Michigan assigns accounts to Treasury for collection. Treasury owns and maintains the system that it and GC Services (its contracted collection agency) use for collection activities. Treasury also provides Michigan with equipment and software, including the local area network, personal computers (hardware and software), e-mail system, embedded technology, and electronic funds transfer.

### *DMB Provides Several Services*

DMB provides Michigan with facilities management, telecommunications, payroll processing, and security services.

## Evaluation of Testing

We compared the documentation Michigan maintained to the status of Year 2000 efforts at USA Group, Treasury, and DMB. Our evaluation indicated that Michigan was adequately monitoring the Year 2000 readiness efforts of its service providers and those systems that affect it.

### *Michigan Relying on Testing Performed by Service Providers*

Michigan is relying on its service providers to complete the renovation, validation, and implementation phases of their Year 2000 readiness efforts. Michigan is monitoring the progress of USA Group, Treasury, and DMB in completing Year 2000 readiness. Michigan submitted its Guaranty Agency Year 2000 Status Update - June 1999 to Booz-Allen & Hamilton, indicating that the validation and implementation phases were 90% complete. The 10% that remains is generally related to embedded technology in nonessential equipment for which DMB is responsible.

### *Booz-Allen & Hamilton Reviewed USA Group Year 2000 Testing Procedures*

The Year 2000 readiness of USA Group's systems is critical to Michigan. At the request of GLOS, Booz-Allen & Hamilton conducted a site visit to USA Group's offices in Fishers, Indiana in January 1999, which included an evaluation of USA Group's system testing procedures. Booz-Allen & Hamilton concluded that USA Group's system testing was adequate even though strict independent verification and validation was not used. According to a Booz-Allen & Hamilton official, USA Group's testing was extensive and included user acceptance sign-off that renovated programs were working properly.

### *Michigan Is Using the USA Group System*

USA Group certified the system that Michigan currently uses for guarantee processing as Year 2000 compliant. Part of this system is new and was developed to be Year 2000 compliant. The remainder of the system is a legacy system that was renovated and tested for Year 2000 compliance.

### *Treasury Certified that Loan Collection*

Treasury certified that the loan collection system used for Michigan's post-default collection activity is Year 2000 compliant. We were

*System Is Year 2000  
Compliant*

informed that the collection system was developed by an outside collection agency to be Year 2000 compliant.

*Michigan Is  
Monitoring DMB  
Regarding Year 2000  
Compliance*

Michigan is monitoring DMB regarding the Year 2000 compliance of services provided by DMB. DMB has contacted vendors providing services and equipment used to support Michigan regarding Year 2000 compliance.

## **Evaluation of Contingency Planning**

*Adequate Planning  
Methodology  
Developed*

Year 2000 contingency planning addresses the steps needed to ensure the continuity of an agency's core business processes in the event of a Year 2000-induced system failure. Michigan developed written contingency plans for its critical systems. These contingency plans incorporate the contingency plans provided by its service providers.

We reviewed the Michigan and USA Group contingency plans and they address the critical systems used by Michigan. Michigan is monitoring USA Group's contingency planning to assess the affect on its contingency plans.

Michigan also relied on information from Treasury and DMB to develop its contingency plans. Michigan is also monitoring the contingency planning of these service providers to assess the effect on its own contingency plans.

We concluded that Michigan's contingency plan methodology is adequate.



## Risk Analysis

*Risk Analysis Defined*

A risk analysis assesses and quantifies uncertainties. With regard to the Year 2000, these inherent uncertainties or risks are date-related events (or non-events) that would have a negative effect on or endanger a core business function or critical system of the organization. Michigan's core business function is the FFEL Program.

*Development of High Impact Risk List*

Booz-Allen & Hamilton, GLOS's technical support contractor, developed a list of high impact risks based on areas identified by (1) individual and overall risk assessments (via telephone interviews), (2) GLOS management, and (3) industry best practices. Booz-Allen & Hamilton organized the resulting list into risk categories and subcategories. We added one subcategory to include service provider certifications. All items listed were identified as high impact risks to both Michigan and GLOS. We scored each risk category and subcategory using the following scoring system. The scoring ranged from minus (-) to plus (+) (see legend in table below). Minus indicates that Michigan has not taken steps to mitigate the associated risk. Plus indicates that Michigan appears to be successfully mitigating Year 2000 risks. To receive a plus score, Michigan had to demonstrate actions taken to eliminate or reduce the effect or likelihood of a risk/threat before the time horizon to failure for that subcategory.

HIGH RISK CATEGORIES AND SUBCATEGORIES	Michigan	RISK MITIGATED BY SERVICER		
<b>MANAGEMENT</b>				
Organization/Project Office. Upper management support. Unified message.	+	USAG		
<i>Project plan and schedule in place, in use, and running as planned. (Sufficient progress by phase. Little or no slippage.)</i>	⊕	USAG		
<b>TECHNICAL</b>				
<i>Inventory (hardware, software, interfaces, and embedded technology) completed.</i>	⊕	USAG	Treasury	DMB
<i>Appropriate designation of mission critical systems. FFEL Program systems designated as mission critical.</i>	+	USAG		
Renovation approach. Standard methodology - used normal system development life cycle in approaching Year 2000 project. Renovation decisions based on analysis, such as impact studies.	⊕	USAG		
Testing approach. Evaluation of methods, plans, and results. All levels of testing addressed: unit,	⊕	USAG	Treasury	DMB

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integration, systems, acceptance, and interfaces (true tests versus mimic tests). Used adequate testing procedures (regression, performance, stress, and forward and backward time). Tested critical Year 2000 dates.				
Data exchange issues resolved.	⊕	USAG		
Provided Michigan with Year 2000 certifications for systems and services.	⊕	USAG	Treasury	DMB
Formal process for obtaining Year 2000 certifications from key service providers.	+			
Contingency planning (Plans are a priority and are in place).	⊕	USAG	Treasury	DMB
<p>*Scoring Legend</p> <ul style="list-style-type: none"> <li>- No risk mitigation activity has occurred.</li> <li>-/0 Efforts have been initialized in order to mitigate risks.</li> <li>0 Appears to be moderately mitigating risks.</li> <li>0/+ Appears to be satisfactorily mitigating risks.</li> <li>+ Appears to be successfully mitigating risks.</li> <li>⊕ Michigan adequately monitored its service providers for this area.</li> </ul>	<p>Service Legend</p> <ul style="list-style-type: none"> <li>USAG USA Group</li> <li>Treasury Michigan Dept. of Treasury</li> <li>DMB Michigan Dept. of Management and Budget</li> </ul>			

## Conclusion

*Michigan is adequately monitoring the Year 2000 readiness of its servicing entities*

Our evaluation of Michigan's Year 2000 readiness indicates that the entity is adequately monitoring the progress of service providers in achieving Year 2000 readiness for those systems that affect it.

### *Background*

ED is in the process of ensuring that all of its computer systems and the interfaces between them and the systems of its trading partners are Year 2000 compliant. Year 2000 compliance (or readiness) refers to the capability of a product to correctly process, provide, and/or receive data containing dates from, into, and between the 20<sup>th</sup> and 21<sup>st</sup> centuries. A system's ability to accurately process date and time data is crucial to continuing a business' normal operations beyond the turn of the century. Failure to address this issue could result in erroneous system execution or system failure.

*ED issued Dear Colleague Letter 98-G-306* to guaranty agencies to reinforce the seriousness of Year 2000 compliance. It advised guaranty agencies of the potential impact of the Year 2000 problem and the importance of an aggressive approach to ensure that the FFEL Program will continue unimpaired. The letter further emphasized meeting the critical milestone dates for each of the five phases set by the Office of Management and Budget and General Accounting Office. The designated phases for a Year 2000 readiness plan are awareness, assessment, renovation, validation, and implementation (with ongoing contingency planning throughout the entire project).

In July 1998, ED retained Booz-Allen & Hamilton to assess the Year 2000 readiness of the guaranty agencies. In September 1998, Booz-Allen & Hamilton conducted telephone interviews with all 36 guaranty agencies. The results of those interviews, as well as a determination of the ability of guaranty agencies to mitigate their Year 2000 risks were presented to ED. As part of ED's ongoing efforts to assure the Year 2000 compliance of guaranty agencies in the FFEL Program, Booz-Allen & Hamilton subsequently conducted an on-site Year 2000 review at USA Group from January 24 - 29, 1999. This included a review of the USA Group systems which Michigan uses for automated information processing.

GLOS contracted with Booz-Allen & Hamilton to conduct a second round of the Year 2000 readiness assessments at select guaranty agencies. The Office of Inspector General (OIG) supplemented GLOS's activities to ensure Year 2000 compliance by evaluating Michigan's Year 2000 readiness.

### *Objectives, Scope, and Methodology*

We evaluated Michigan's Year 2000 plans, milestones, and progress using methodology in Booz-Allen & Hamilton Reviewer's Guide Guaranty Agency Ongoing Year 2000 On-site Readiness Review (6/99). We modified this methodology because Michigan relies on several service providers for systems and services. Our objective was to assess whether Michigan is adequately monitoring the Year 2000 readiness efforts of these service providers in achieving Year 2000 readiness for those systems that affect it. Given the objective of our review, the team only evaluated Michigan's Year 2000 management plan and any documentation supporting Michigan's Year 2000 efforts. This evaluation included comparing the documentation Michigan maintained to the status of Year 2000 efforts at USA Group, Treasury, and DMB. All work was performed in accordance with ED-OIG Policies and Procedures Manual Chapter 2310: Alternative Services and Products. Therefore, we did not (1) have

## **APPENDIX**

a survey phase, (2) perform an internal controls review, or (3) assess the reliability of any computer processed data.

We conducted on-site field work at the Michigan Guaranty Agency in Lansing, Michigan from July 13 - 15, 1999, and at USA Group in Fishers, Indiana from July 20 - 21, 1999. We examined documentation and interviewed officials at Michigan and USA Group supporting Michigan's Year 2000 monitoring efforts and USA Group's Year 2000 readiness efforts. We also conducted telephone interviews with Booz-Allen & Hamilton officials and reviewed their reports. We did not perform work that would provide assurance that Michigan's Year 2000 compliance plan will work, only that it met or exceeded milestones.

This Management Information Report is intended to provide information for decision makers and is not an audit or investigative report. We conducted our review according to government auditing standards applicable to the limited scope review described.

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