

**STATEMENT OF PATRICIA A. DALTON
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BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
EDUCATION AND THE WORKFORCE COMMITTEE
U.S. HOUSE OF REPRESENTATIVES**

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Good morning Mr. Chairman and members of the Subcommittee. Thank you for inviting the Office of Inspector General (OIG) to discuss the highly important and pressing issue of Year 2000 (Y2K) computer conversion, with respect to the U.S. Department of Labor (DOL). I am here in my capacity as Deputy Inspector General to present the views of the OIG, which may not necessarily be representative of those of the Department of Labor.

In the last 6 months, there has been considerable attention on the part of the Congress, the business community, and the media on correcting the Y2K problem. The ultimate impact of the Y2K problem in the Department of Labor is still uncertain. This is why I would like to thank you for your interest in holding this hearing. I believe that it will help to provide a greater understanding of the unique and necessary agency-by-agency response to the Y2K millennium problem.

The U.S. Department of Labor must be persistent and timely in ensuring that it plans for, implements and verifies its systems so that they will not be affected by this problem. While the OIG supports the Secretary's decision to raise the responsibility for this problem to the Deputy Secretary level and to inform the Assistant Secretaries -- both orally and in writing -- that they will be held personally accountable for their agencies' compliance, much still remains to be accomplished. In my testimony today, I will address the Department's progress toward Y2K compliance of its 61 mission-critical systems, DOL's relationship with the states, contingency planning, and -- finally -- the issue of independent verification and validation of Y2K compliance.

Background

In April the OIG and DOL Chief Information Officer (CIO) began to assess and respond to the areas of greatest concern to the Department with respect to the Y2K problem. Since April, the OIG has worked collaboratively with the CIO, the DOL Information Technology Center, and each agency Y2K coordinator.

This collaboration with the Department included the OIG conducting an audit to "baseline" the magnitude of the Y2K problem. The scope of the audit work that we performed covered all 61 agency mission-critical systems within the Department and focused on developing baseline information as to their status and progress, as well as the identification of concerns. The baseline was developed during the period May 18 through June 26, 1998, and examined the following agencies: Bureau of Labor Statistics (BLS), the Employment Standards Administration (ESA), the Employment and Training Administration (ETA), the Mine Safety and Health Administration (MSHA), the Office of the Chief Financial Officer (OCFO), the Occupational Safety and Health Administration (OSHA), the Office of the Assistant Secretary for Administration and Management (OASAM), the Pension and Welfare Benefits Administration (PWBA), and the Veterans'

Employment and Training Service (VETS).

By interviewing key management officials and Y2K project staff and assessing relevant Y2K project documentation and reports, we obtained information on all 61 mission-critical systems and established the Y2K status of each mission-critical system. We also identified those areas needing management action or management attention. While the OIG examined issues on Department-wide and individual agency basis, we also reviewed the Department from several other perspectives. The OIG examined the Department's business priorities, the overall system impact of Y2K on the Department, whether DOL has met the Office of Management and Budget (OMB) guidelines for Y2K compliance, and -- finally -- how DOL is handling the issue of data exchanges with states and other external agencies.

Business Priorities

First, we examined the issues of business priorities, and consequently divided and ranked the DOL mission-critical functions into six priority categories:

Business Priority	Number of Systems
Priority 1 - Benefits Systems	3
Priority 2 - Statistical Systems	24
Priority 3 - Financial Systems	3
Priority 4 - Enforcement Systems	10
Priority 5 - Programmatic Systems	15
Priority 6 - Administrative Systems	6

Notably, however, of these 61 systems, only the Davis-Bacon system was identified as requiring management action. Since the release of the report, the Department has advised us that the

Davis-Bacon system has been renovated and operationally tested, but we have not independently verified it as this time.

Y2K System Impact

First, the OIG examined the overall Y2K impact on agencies, and then determined whether the Y2K problem would have a high, medium, or low impact on the Department's ability to provide services and information to people, businesses, and other government agencies. Of the 61 mission-critical systems, 9 have a high impact on services, 10 have a medium impact on services, and 42 have a low impact.

Conversely, DOL reported that of the 9 systems that fall into the high-impact category, only 1 is Y2K compliant (11%); of the 10 systems that fall into the medium category, only 2 are compliant (20%); and finally, of the 42 that fall into the low impact category, 19 are compliant (45%).

Category	Reported As Compliant	Reported As Non-Compliant
High Impact (9)	1	8
Medium Impact (10)	2	8

Low Impact (42)	19	23
TOTAL (61)	22 ^a	39 ^b

(^a As of August 14, the number of compliant systems was reported as 24.)

(^b As of August 14, the number of non-compliant systems was reported as 37.)

Specifically, ESA, OASAM, OCFO and OSHA account for the nine systems of high Y2K impact that may require increased management attention. In part, these systems raise concerns because none had a continuity of business contingency plan established, as required by OMB guidance. In addition, ESA has two systems of high Y2K impact for which independent verification and validation (IV&V) plans do not exist. Moreover, a third system of high Y2K impact is behind schedule in its renovation phase.

Despite Progress Y2K Compliance Is Lagging

The OIG also examined the Department's Y2K needs in terms of OMB's Y2K approach that included these phases: awareness, assessment, renovation, validation and implementation. This approach allows OMB to receive progress information only at the Department of Labor level, OMB analysis does not reach down to the agency level. This information is compiled from agency quarterly reports that are based on OMB Y2K guidelines and submitted to the CIO. It is only after a system has successfully accomplished each phase in total that OMB credits an agency with progress. When comparing DOL's progress to OMB's Government-wide Y2K percentages, DOL is behind in the renovation, validation and the implementation of its systems.

OMB Y2K Phase	OMB Y2K Phase Completion Date	OMB Government-wide Percentages	DOL Progress Percentages (As of May 15, Verified by the OIG)	DOL Progress Percentages (As of August 14, Unverified by the OIG)
Assessment	June 1997	100%	100%	100%
Renovation	September 1998	55%	41%	52%
Validation	January 1999	32%	19%	22%
Implementation	March 1999	27%	19%	19%

Again, while the Department is making progress in a number of areas, total project compliance, as determined by the OMB approach, is lagging.

UI System Poses Major Concern

Currently, 53 State Employment Security Agencies (SESAs) operate four major systems. These systems are: benefits, tax, employment services, and administration. Our concern is with the unemployment insurance benefits and taxation systems, however, our more immediate concern is

with the benefit component of this system. The unemployment insurance (UI) systems process approximately \$20 billion in unemployment insurance benefit payments annually and affect about 7 million people. In addition to the distribution of payments, UI also contains a tax component that processes about \$24 billion in unemployment insurance taxes from businesses. ETA is responsible for reviewing and assuring that the states are making adequate progress in developing Y2K solutions for the UI systems, with a current focus on the benefit payment systems.

A major concern is the impact that the Y2K problem will have on the UI systems. The OIG raises this concern because, when initiating an unemployment insurance claim, a benefit year is established for 1 year forward from the date when the claim is filed. This means if a claim is filed on January 4, 1999, the system will calculate a benefit year ending date of January 4, 2000. If a benefit component is not using a four-digit date field for the year, or the system has not been renovated to accurately interpret the year "00," then that system may deny benefits and/or eligibility to a claimant who files after January 1, 1999.

Currently, there are seven states and territories struggling to maintain sufficient Y2K progress. These states and territories were identified as being "at-risk" for failing to accomplish a Y2K solution for purpose of making a benefit payment. They include: Arkansas, Delaware, the District of Columbia, Montana, New Mexico, Puerto Rico, and the Virgin Islands. According to the Department, states' Y2K progress on the benefit component was the primary factor in the determination of the "at-risk" states, because of the benefit component's high impact on the program. In addition, to the seven "at-risk" states and territories, two other states, Florida and Michigan, were placed on a "watch list" due to previous poor performance that is related to system development efforts. Since our audit report was released on July 23, the OIG has learned that both Florida and Michigan have been taken off the "watch list," but four other states have now been added to the "watch list." These states include: Illinois, Louisiana, Maine, and Nevada.

Additional Areas of Concern

In addition to the concerns that I have already discussed, the OIG found a number of other management-related issues of concern, including: agency reporting, scheduling of independent verification and validation (IV&V), and contingency planning by the DOL and the states.

Agency Reporting

Initially, the OIG found multiple errors within agency reports. However, as a result of the CIO's close scrutiny of the information reported by agencies, errors did not appear in the reports that were finally submitted to OMB.

Scheduling of Independent Verification and Validation (IV&V)

Independent verification and validation is an important step in assuring that the Department's systems continue to carry out the Department's business and serve the public. However, agencies that we examined are just now beginning to contemplate what their level of involvement will be with respect to independent verification and validation.

The Department currently has 24 systems that are compliant, with 6 of these systems having now been scheduled for IV&V. In addition, the CIO anticipates another 20 systems will be compliant by November 1998. With all the additional systems becoming compliant, it is paramount that the

Department begin to schedule and perform independent verification and validation. It is the opinion of the OIG that without systematic scheduling and performing of IV&V, the Department will not be able to provide the necessary assurances that it will reach full Y2K compliance.

Status of Contingency Planning

When we completed our audit in late July, most of the agencies (PWBA and OASAM excluded) did not have any written contingency plans. However, most agencies did have impact statements for their systems, which are necessary for developing contingency plans. By July 17, the CIO had received 57 of the 61 contingency plans. The remaining four mission-critical contingency plans have since been transmitted to the CIO. Although all of the contingency plans have been submitted, none of the Department's plans have been evaluated. The OIG urges that an evaluation of these plans take place to ensure that these plans contain the necessary tools for Y2K contingency planning.

As a subset to contingency planning, it is also important to recognize benefit payment systems' contingency plans, with specific focus toward states' UI systems. Specifically, we must take a close look at the "at-risk" states and ensure that the necessary quality assurance standards are contained within contingency plans. These quality assurance standards should be used to assess and test the functionality of continuing business. The Employment and Training Administration is requiring that the "at-risk" states and territories develop and submit contingency plans to UIS by October 9, 1998. The states and territories on the "watch list," as well as all other states, are being required to submit contingency plans by November 20, 1998.

Conclusion

As we approach the millennium, the OIG will continue to monitor the Department's progress and apprise the Congress about those areas where Y2K compliance is not being achieved. Mr. Chairman, this concludes my prepared statement, I would be pleased to answer any questions that you or the other Subcommittee Members may have.