cused oversight and stepped up efforts due to the risks associated with their current pace of progress: Healthcare Finance Agency (HCFA), Federal Aviation Administration (FAA), Department of Energy (DOE) and Department of Defense (DOD). In light of these risks, these agencies' business continuity and contingency plans become even more important.

The area of system interfaces is another concern that requires additional attention. These interfaces exist internally within each federal agency; they exist between different agencies, between agencies and state governments, and between agencies and local governments. Generally, these interfaces support government revenue collection systems and benefits payment systems. Often, it is not clear who is responsible for interfaces among federal, state and local governments. Furthermore, the testing is complicated by the need to test these interfaces as a portion of the overall testing strategy.

One prime example is HCFA, which is one the farthest behind in its critical systems remediation efforts. HCFA manages Medicare, Medicaid and Child Health programs serving over 74 million Americans. Problems with federal systems combined with Y2K failures state and local government systems, or the interfaces between them, could result in delayed benefit payments, payments not being received at all or delivered to the wrong party, eligible recipients not receiving payments or incorrect

amounts disbursed. Given the extreme volume of transactions that occur daily to support these programs, a contingency plan consisting of manual processes would not suffice.

Finally, half of the emergency supplemental funds for non-defense agencies have already been released within the past 2 months. These funds were intended to stretch over a 3-year period, which suggests that little will remain for true emergency requirements. It is not clear that OMB scrutinized funding requests as closely as the Committee would have hoped. While OMB is experienced in overseeing budgetary requests, another entity more involved with the Y2K issue, such as the President's Council, might have been better fit to evaluate the Y2K funding requests. Unfortunately, suggestions from the House to give more authority and responsibility to the President's Council have yet to take root.

DEPARTMENT OF DEFENSE

In addition to the concerns expressed above, the Department of Defense (DOD), as the largest federal agency with nearly half of the federal government's computer assets, faces a monumental management challenge in addressing Y2K. The department relies on computer systems to conduct nearly all of its functions, including strategic and tactical military operations; sophisticated weaponry; intelligence collection, analysis, and dissemina-

tion; security efforts; and more routine business operations such as payroll and logistics.

The breadth of the problem confronting DOD is enormous: it has more than 1.5 million computers, 28,000 automated information systems and 10,000 networks. Its information systems are linked by thousands of interfaces that exchange data within DOD and across organizational and international lines. Furthermore, DOD's reliance on computer systems is increasing as technology changes the traditional concepts of warfighting through improved intelligence and rapidly modernized command and control. Successful defense operations will depend greatly on the department's ability to ensure that its systems and the systems with which they interface are Year 2000 compliant.

According to the U.S. General Accounting Office (GAO), which published a series of reports last year on DOD's overall efforts to address the Year 2000 problem, the department's efforts pose considerable risks. DOD still does not have reliable, timely information on program status, because information being reported up-the-chain is not validated for accuracy or completeness. GAO found instances in which defense components' reports on systems compliance were often inaccurate. In addition, GAO found that guidance issued by the department to its components on issues such as interfaces, testing, and reporting has

been inconsistent, leading to false starts and uncoordinated efforts. GAO also found that DOD's contingency plans, developed in the event of systems failures, are frequently not executable.

DOD's Inspector General and other internal audit offices have issued over 130 reports that similarly question the department's management of its Year 2000 program. These audit reports repeatedly revealed many of the same findings as those reported by the GAO, as well as problems experienced in assessing and inventorying systems, effectively determining and allocating resources, and accurately testing and certifying systems' Year 2000 compliance. The department's audit reports also revealed that much of DOD's base level infrastructure, such as security systems, telephone switches, traffic control systems, and water and sewage treatment systems are vulnerable to Year 2000 problems.

These findings and risks are reflected in the Office of Management and Budget's assessment of DOD as a "Tier 1" agency, i.e., an agency showing "insufficient evidence of adequate progress." DOD senior management has been responsive to the GAO and internal audit findings and has taken an active, highly visible interest in implementing corrective actions. The senior management team has improved its oversight of the Year 2000 program so that it can more effectively assess program direction and take actions

based on this assessment and known problems. However, DOD remains behind schedule in completing its systems remediation and is at considerable risk of being unable to successfully meet the Year 2000 deadline.

STATE AND LOCAL GOVERNMENT

Overview

In addition to the 50 state governments, there are 3,068 county government jurisdictions and approximately 87,000 other local government jurisdictions within the United States.

These state, county, and local governments deliver the majority of the essential services upon which citizens rely each day. These include police, fire, and emergency medical services response; financial support networks, including welfare and Medicaid payments; unemployment insurance payment systems; disability claims; and basic utilities, such as water and wastewater, sanitation, and local transportation systems. While the prospect of preparing federal government systems is daunting, the challenge of assuring the Y2K preparedness of these other sectors of government is even more mammoth. The consequences of failures in this sector are as potentially grave to the public as failures in the vital sectors of power and telecommunications.

Initiatives

Several of the largest intergovernmental councils and professional organizations are actively engaged in Y2K awareness programs. The National League of Cities, the National Association of Counties, and the International City/County Management Association, in conjunction with Public Technology, Inc., are sponsoring a Y2K awareness program entitled "Y2K and You." The Metropolitan Washington Council of Governments has published a Year 2000 Best Practice Manual. These programs are good examples of what an effective dialogue between state, county, and local governments can achieve.

In his testimony before the Committee on October 2, 1998, the Honorable Michael O. Leavitt, governor of Utah and vice chairman of the National Governor's Association (NGA), described several NGA initiatives aimed at assisting the states with Y2K preparation. In July 1998, the NGA held a "Year 2000 State Summit" which focused on state, local, and private-sector coordination and on establishing a common agenda to increase public confidence in state services. The NGA has also published an issue brief entitled "What Governors Need to Know About Y2K," which Governor Leavitt stated "outlines the steps governors should take as chief executive officers, guarantors of public safety, and public leaders." Both the State of Texas and the State of Pennsylvania have been recognized as having two of the most extensive and well-developed state Y2K programs. New York State Governor George Pataki has also been leading the