

# U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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November 30, 1998

## MEMORANDUM

**TO:** Director, USAID/Philippines, Patricia K. Buckles

**FROM:** RIG/Manila, Bruce M. Watts *Bruce M. Watts*

**SUBJECT:** Audit of USAID/Philippines' Program-Funded Year 2000 Sensitive Activities, Report No. 5-492-99-001-P

This is our final report on the subject audit. We reviewed your comments to the draft report and included them in their entirety as Appendix II. The report contains two recommendations. Recommendation No. 1 is closed upon issuance of the report and a management decision has been made on Recommendation No. 2. Information related to closing Recommendation No. 2 should be provided to USAID's Office of Management Planning and Innovation.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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### Background

From word processing and electronic mail to air traffic control systems, computer hardware and software are a pervasive and essential part of everyday life. We depend on computers to perform as expected.

Over the years, some suppliers have designed computer hardware (i.e., microprocessing chips) and software that store and process the year in a two-digit format rather than a four-digit format (i.e. recording September 1, 1997, as 09/01/97 rather than 09/01/1997). Using two digits for the year can reduce costs, the amount of computer memory utilized and the time required to input data. But when we reach the year 2000, systems recording the year in two-digit formats may not be able to distinguish between dates in the 1900s versus those in the new century.<sup>1</sup> This situation, commonly referred to as the "Year 2000 (Y2K) problem", could lead to erroneous date calculations and manipulations, which could cause system failures.

To address the impact that the Y2K problem might have on previous and future development accomplishments, USAID issued General Notice No. 65. This notice

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<sup>1</sup> For example, both the date September 1, 1920, and September 1, 2020, would be stored as 09/01/20.

presents USAID missions with the steps to be taken in identifying, repairing and testing the Y2K compliance of USAID program-funded systems. It also presents general guidance on making counterparts and beneficiaries aware of the Y2K problem.

Over the life of its development program, USAID/Philippines has provided a variety of information technology systems and equipment to various Government of Philippines organizations, including the Philippines' Department of Health, Securities and Exchange Commission, and provincial airports. These systems include air navigational, epidemiology and administrative systems, all of which could be Y2K sensitive.

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### **Audit Objective**

The Office of the Regional Inspector General/Manila audited USAID/Philippines to answer the following audit objective:<sup>2</sup>

- **Are USAID/Philippines' development assistance accomplishments placed at risk by Year 2000 problems in selected program-funded information systems?**

Appendix I includes a discussion of the scope and methodology for this audit.

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### **Audit Findings**

USAID/Philippines' development assistance accomplishments are currently at risk of being impacted by the Year 2000 (Y2K) problem. USAID/Philippines has taken steps to address the Y2K problem. Specifically, the Mission has

- designated a Y2K coordinator,
- developed an inventory of systems that may be vulnerable to failure because of the Y2K problem,
- contacted some host country counterparts, and
- identified three critical systems that are at risk.

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<sup>2</sup> This audit is part of a USAID-wide review of the Year 2000 problem directed by USAID's Office of the Inspector General's Division of Information Technology and Special Audits (IG/A/ITSA). The OIG decided not to issue a final summary report on USAID's Y2K efforts for program-funded activities because the OIG had provided summary information to USAID in a memorandum and had included the overall message in its report on Operating Expense Y2K efforts (Audit of USAID's Assessment of the Year 2000 Problem, Audit Report No. A-000-98-006-P dated September 21, 1998).

However, more needs to be done. The inventory of critical systems is incomplete and there has been no systematic follow-up with host country counterparts concerning possible Y2K problems. In addition, the three priority systems identified by the Mission were not selected through a complete review of critical systems that have been funded by the Mission. Further, the Mission has not developed a plan and time line for managing the overall Y2K effort. These issues are discussed below.

**Mission-Funded  
Systems are at Risk**

USAID guidance requires missions to determine which program-funded information systems are potentially at risk to the Y2K problem and to coordinate efforts with the host country to eliminate that risk. Specifically, missions are to develop an inventory of systems, assess both the technical risk and potential development impact if systems fail, and work with the host country institutions and beneficiaries to correct any Y2K deficiencies. Moreover, missions may need to partner closely with State Department initiatives in addressing the overall Y2K problem. Although USAID/Philippines has taken some action addressing the Y2K issue, it has not fully complied with the USAID provisions. The inventory of systems does not include a complete listing of critical systems which may be subject to the Y2K problem. Further, the Mission has not applied a systematic method for identifying and determining whether critical systems are Y2K compliant and for working with counterparts to address non-compliant systems. As a result, USAID/Philippines' development assistance accomplishments are currently at risk of being impacted by the Y2K problem.

**Recommendation No. 1:** We recommend that USAID/Philippines establish a Year 2000 working group composed of the Year 2000 Program Coordinator and representatives from each strategic objective team to ensure a more systematic approach to managing the Year 2000 problem.

**Recommendation No. 2:** We recommend that USAID/Philippines, in cooperation with the U.S. Embassy/Philippines Year 2000 Committee, host country counterparts, and contractors/grantees, develop an action plan for managing the Year 2000 problem which:

- a) defines USAID/Philippines' role and responsibilities for the Year 2000 effort and includes targets and time frames for carrying out those roles and responsibilities;
- b) specifies procedures for identifying critical systems at risk of failure because of the Year 2000 problem and for mitigating the risk; and
- c) contains contingency plans for critical systems that cannot be repaired before calendar year 2000.

USAID General Notice No. 65, issued in April 1998, calls for missions to designate Y2K coordinators to identify vulnerabilities in program-funded information technology and to coordinate efforts to eliminate those vulnerabilities. Missions are to:

- develop an initial inventory of current program-funded information technology systems (for completed activities, missions may wish to create an inventory of those activities which involved information technology where it is likely that these systems are still in use),
- determine the technical risk associated with the systems (what kinds of Y2K failures might occur in these systems), and
- assess the development impact (if the technical risk occurs, what is the likely impact on achieving the desired development goals).

The General Notice identifies five key phases for achieving Y2K compliance:

- (1) Awareness - Mission personnel are to become aware of the Y2K problem and discuss the potential impact with their host country counterparts and beneficiaries.
- (2) Assessment - Missions are to determine what systems might be vulnerable along with the associated technical and development assistance impact. Mission management should use this assessment to set priorities and allocate resources to address the most pressing Y2K issues.
- (3) Repair - For priority systems requiring repair, work with system owners to report, test and implement corrections to those information systems.
- (4) Validation - Missions should ensure that repaired systems are tested and validated.
- (5) Contingency Planning - For systems that cannot be repaired before calendar year 2000, develop contingency plans in case of system failure (e.g., convert to manual processing or take other remedial actions to continue operations).

Additionally, General Notice No. 65 states that as the Department of State's initiative takes shape, USAID mission Y2K coordinators may need to work closely with the Department of State coordinators to address host government critical infrastructure.

As described previously, our review indicated that USAID/Philippines has taken some action addressing the Y2K problem, but that more needs to be done. In our opinion, at

the time of our audit the Mission had entered the assessment phase identified in General Notice No. 65.

The Mission inventory of critical systems provided to us by the Mission's Y2K Coordinator on July 23, 1998, did not include a complete listing of critical systems that may be affected by the Y2K problem. The inventory included 22 systems, 3 of which the Mission reported as being the most critical in its response to an Office of Inspector General questionnaire concerning the Y2K problem. However, through discussions with Mission strategic objective teams, the audit identified an additional 10 systems that were not included on the Mission inventory. At least 2 of the 10 systems were considered by the auditors to be critical—having possible life or death consequences should they fail or resulting in the loss of large bodies of data needed to support programs. These systems are discussed below. Based on discussions with Mission strategic objective teams, we believe that there are other critical systems that should be identified.

The need for the Mission to proceed with systematic action to address the Y2K problem was highlighted by our review of five USAID-funded systems. The systems selected were the three systems reported by the Mission as being the most critical and two critical systems identified during the audit. As discussed below, the audit work revealed that two systems were not Y2K compliant and that the Y2K compliance of the remaining three systems had not been established.

#### **Air Navigational Systems Under the Rural Infrastructure Fund Project and Systems at Mindanao's New General Santos City Airport**

Under the Rural Infrastructure Fund project, USAID/Philippines provided air navigational equipment and systems totalling about \$15 million to 13 provincial airports. USAID/Philippines also provided navigational equipment, communication systems, lighting systems, and a control system at Mindanao's New General Santos City Airport with an estimated cost of about \$2.5 million under the Mindanao Development Project. None of these systems were included in the Mission's inventory of critical systems.

The air navigational equipment and systems are critical to the proper functioning of the airports. For example, electronic equipment provided under the USAID projects includes systems to guide aircraft to the center of the runways, measure the distance of airplanes from the airports and runways, and communicate weather conditions on the ground to pilots. All this equipment is important for safe landing, especially in bad weather and poor visibility.

The Mission had been in contact with an Air Transportation Office (ATO) official regarding whether the air navigational systems under the Rural Infrastructure Fund project were Y2K sensitive. However, when we met with the ATO staff recommended by the Mission regarding the systems under the Mindanao Development Project, those ATO officials indicated that they were unaware of any Y2K-related USAID contact beyond the

scheduling of our meeting. The ATO obtained an informal Y2K evaluation from one supplier of some of the navigational equipment under both projects. Nevertheless, informal evaluations may mislead the system's owner in believing that the system is not at risk because they do not provide real assurance that the system is compliant. Moreover, the ATO had not obtained certifications from at least five other suppliers of the navigational equipment, electronic equipment and systems. In addition, tests of the equipment to determine Y2K compliance had not been done.

The Department of Transportation and Communications has recently organized a task force to review Y2K compliance of the Philippines' air traffic services and air navigation services. The task force, which had not met at the time of our audit, was established to address issues and assess the impact of the Y2K problem on computer-based aviation systems. According to ATO officials, the ATO planned to buy additional navigational equipment that will be Y2K compliant. However, the USAID-funded equipment will continue to service some of the airport runways.

Based on the above, we concluded that the Y2K compliance of the systems had not been established and that the Mission needed to work with the ATO to either develop and implement a plan to ensure that the systems are not at risk or develop and implement contingency plans should the systems fail.

#### **Systems Developed for the Philippines' Securities and Exchange Commission**

The Securities and Exchange Commission (SEC) systems totalling \$1.2 million were developed as part of the Mission's project to strengthen capital markets in the Philippines. Information generated by the systems is used by investors, policy makers, and market regulators to reach investment decisions and promote institutional efficiency. The SEC systems were included in the Mission's inventory of critical systems.

According to USAID/Philippines, strengthening of financial markets is one of the intermediate results that will lead to the achievement of the Mission's strategic objective on improving national systems for trade and investment. A breakdown in the systems could cause a major setback in the program, negate the gains already achieved under the program, and require reprogramming to put the systems back on track.

Mission staff indicated that they had contacted the former technical assistance contractor responsible for installing the SEC systems and that she had mentioned that the systems were not at risk to the Y2K problem. However, the SEC Management Information Systems (MIS) Manager operating the systems did not report any USAID contact. According to the MIS Manager, she recently tested the system to determine whether it was Y2K compliant. When she moved the date forward to the year 2000, error messages were displayed. She indicated that dates in the reporting format and software programs were in two-digits, and therefore, the reporting formats and software programs would

have to be changed to four digits to prevent any Y2K problems. She also was unsure whether the computer hardware was Y2K compliant.

Based on the above, we concluded that the system was not Y2K compliant and the Mission needed to work with the SEC to either develop and implement a plan to ensure that the systems are not at risk or develop and implement contingency plans should the systems fail.

### **National Human Immunodeficiency Virus Sentinel Surveillance System**

The epidemiological information provided by the Human Immunodeficiency Virus (HIV) Sentinel Surveillance System is used to make national policy and target resources for HIV prevention. Furthermore, information from this system is used to identify sections of the country which are experiencing disease epidemics.<sup>3</sup> This system was included in the Mission's inventory.

A Department of Health official stated that she had been contacted by USAID/Philippines to determine whether she believed the system was Y2K compliant. Her response was that the system was not at risk because dates are not entered into the system. Therefore, she was unaware of any plans to obtain supplier certifications or to test the system. However, according to the U.S. Centers for Disease Control (CDC) which developed the system, the software is not Y2K compliant although an updated file is available through the internet which would make the software compatible.

Based on the above, we concluded that the system was not Y2K compliant and the Mission needed to work with the Department of Health to either develop and implement a plan to ensure that the system was not at risk or develop and implement contingency plans should the system fail.

### **Contraceptive Distribution and Logistics Management Information System**

The Contraceptive Distribution and Logistics Management Information System provides information on contraceptive inventory transactions, including warehouse shipments, allocations to health units, inventory levels, etc. The information from this system is used to make procurement and distribution decisions. The system, costing about \$130,000, was funded under the Mission's Strategic Objective Number 3, Reduced Fertility Rate and Improved Maternal and Child Health. This system was included in the Mission's inventory of critical systems.

According to Mission and host country officials, a system breakdown could result in shortages or oversupplies of contraceptives. This may cause delays in achieving the

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<sup>3</sup> A Government of Philippines Department of Health Official told us that the system is not solely used for HIV epidemics but identifies all epidemic information throughout the country.

program's target of increased contraceptive prevalence rates—a key indicator of the Mission's family planning program. Erroneous reports generated by the system could also lead to inappropriate programming decisions and possible failure of the family planning program.

The Management Information Systems (MIS) Advisor from the Family Planning Logistics Management Project said that he had been contacted by USAID/Philippines regarding the Y2K issue. The MIS Advisor said he was aware of the Y2K issue and had taken steps to ensure that the system was Y2K compliant. The MIS Advisor had obtained supplier certifications for some of the computer hardware and planned to obtain certificates for the remaining hardware as well as the software. In addition, he said that he had tested the system for Y2K compliance without any exceptions. However, he did not have any documentation of this testing. While the MIS Advisor has taken positive steps to determine whether the system is Y2K compliant, the Mission needs to work with the MIS Advisor to fully ensure that the system is Y2K compliant. This should include obtaining supplier certifications for the remaining hardware and software and documenting results of tests of the system.

#### **A Systematic Approach is Needed**

USAID/Philippines has not fully complied with provisions of USAID's General Notice No. 65 and needs a more rigorous and systematic approach to deal with the Y2K issue. The inventory of USAID-funded computer systems does not include several critical systems identified above which may be subject to the Y2K problem. USAID/Philippines has not applied a systematic method for identifying and determining whether critical systems are Y2K compliant and working with counterparts to address non-compliant systems. Therefore, there may be other critical systems which have not been identified. Further, according to the Y2K Coordinator, the Mission has not developed a plan and time line for managing the overall Y2K effort.

In discussions with the USAID/Philippines Mission Director, she was highly critical of USAID General Notice No. 65. She said that the General Notice was written in vague and very general terms. Therefore, it is difficult to determine just what action is expected from missions. For example, she said that it is not clear whether missions should inventory all systems that have been funded and whether the inventory should include both on-going and closed projects.

Further, by directing reviews of USAID-funded components of individual computer systems, the Director believed that the General Notice places too much emphasis at the micro level. She stressed that the USAID contribution to any one host country system has been very small. Therefore, reviewing the USAID-funded components would have little impact on reducing the Y2K vulnerability of the overall system. She believed that such an effort would be a waste of the Mission's valuable and limited resources.



Instead, the Mission Director said that her resources should be applied at the macro level. By working with host government senior managers and planners to identify Y2K vulnerabilities and devising possible remedies, she believed that her staff can have a much wider impact.

While the Mission's concern about the vagueness of USAID General Notice No. 65 has some merit, we believe the overall message of identifying systems potentially affected by the Y2K problem and working with host country counterparts and beneficiaries to correct any problems is clear. Regarding the Mission Director's statement that General Notice No. 65 places too much emphasis at the micro level, we would like to mention that the audit focused on systems deemed critical by the Mission to meet its development assistance objectives as well as systems which could have life or death consequences if they fail. Furthermore, General Notice No. 65 does address the macro level Y2K problems by suggesting that missions work closely with the Department of State coordinators in their efforts to address host government critical infrastructure. Recommendation No. 2 addresses these macro level concerns.

Our discussions with Government of the Philippines officials showed that the Government is just beginning to address the Y2K issue. Also, government activity related to the Y2K problem has been inconsistent. For example, the Securities and Exchange Commission and the Central Bank of the Philippines had been contacting investment houses, corporations and banks since last year on the Y2K issue. However, Department of Health officials interviewed were unaware of any overall Y2K initiative by the Department of Health.

Executive Order No. 9, issued by the President of the Philippines on August 4, 1998, requires that Philippine Government entities take specific Y2K-related actions including

- rendering their computer-based systems Y2K compliant by the Year 2000 and at the most economical cost to the Government,
- allocating funds from their existing resources and/or savings to address the Y2K problem, and
- reporting to the Office of the President their status of compliance with provisions of the Executive Order by October 31, 1998.

The Executive Order notes that "despite the previous issuances of concerned government agencies, no specific nor definite plan had been developed/formulated, much less implemented, to address the magnitude and urgency of the Year 2000 problem..."

Finally, the U.S. Embassy/Philippines has not finalized its approach to addressing the Y2K problem as it pertains to critical Government of the Philippines infrastructure, as

requested of all missions by the U.S. Secretary of State.<sup>4</sup> This makes it difficult for USAID/Philippines to discern the role it should play in that approach.

### **Conclusion**

USAID/Philippines' development assistance accomplishments are at risk of being impacted by the Year 2000 problem. The Mission should establish a Year 2000 working group composed of the Year 2000 Program Coordinator and representatives from each strategic objective team to ensure that the Year 2000 problem for USAID-funded systems is fully addressed. Moreover, USAID/Philippines should work with the U.S. Embassy/Philippines, host country counterparts, and contractors/grantees to develop an action plan for managing the overall Year 2000 problem in the Philippines.

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### **Management Comments and Our Evaluation**

In response to the draft audit report, management of USAID/Philippines concurred with the two recommendations contained in the report. In addition, management identified actions that the Mission has taken, including

- contacting the Technology and Livelihood Resource Center (the Philippine agency responsible for formulating and providing cost-effective Y2K solutions for government institutions) and
- taking the lead in assisting the U.S. Government effort to develop a plan to address the Y2K problem in the Philippines.

Further, management pointed out that a Y2K Assessment Team would arrive at USAID/Philippines in November 1998. The Y2K Team will assess various Y2K-related issues including program-related information technology applications. As such, the Y2K Team will identify critical systems which require remediation. The Mission expects the Y2K Team to document the full analysis; findings; cost estimates for remediation, validation, and implementation; and contingency planning.

In response to Recommendation No. 1, the Mission established a Year 2000 Working Group in October 1998. The group will ensure that the Y2K problem is properly and adequately addressed and managed for USAID/Philippines and its development partners. USAID/Philippines should also benefit from the timely visit of the Y2K Assessment Team from USAID/Washington. Therefore, based on the Mission's actions and the impending visit by the Y2K Assessment Team, Recommendation No. 1 is closed upon issuance of this report.

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<sup>4</sup> Department of State Cable 109486, dated June 17, 1998.

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Recommendation No. 2 calls for USAID/Philippines to develop an action plan in coordination with the U.S. Embassy, host country counterparts, and contractors/grantees. In cooperation with the U.S. Embassy/Philippines and its development partners, USAID/Philippines is developing an action plan for managing the Y2K problem. The plan will include contingencies for critical systems that cannot be repaired before calendar year 2000. Based on actions taken by the Mission to develop the action plan, we consider that a management decision has been reached on Recommendation No. 2. The final action plan addressing Recommendation No. 2 should be provided to USAID's Office of Management Planning and Innovation for consideration in closing the recommendation.

In its comments, management stated that the Mission had received Y2K certifications for the Air Navigation System and the Contraceptive Distribution and Logistic Management Information System. We emphasize that best practices require that Y2K certifications be comprehensive and based on testing. Therefore, management may wish to assess the process used to conclude that the systems are Y2K compliant.

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## SCOPE AND METHODOLOGY

We audited USAID/Philippines' implementation of USAID General Notice No. 65, which addresses the Year 2000 problem commonly referred to as the Y2K problem. The audit was performed in accordance with generally accepted government auditing standards and was conducted from July 21, 1998, through August 14, 1998, at USAID/Philippines.

To accomplish the audit objective we held discussions with USAID/Philippines staff as well as selected host country and grantee officials. We also reviewed documentation concerning efforts to manage the Y2K problem. Audit work included assessing Mission internal controls related to the Y2K problem for the following five Government of the Philippines information technology systems:

- the Philippine Securities and Exchange Commission systems,
- the National HIV Sentinel Surveillance System,
- the Contraceptive Distribution and Logistics Management Information System.
- the airport systems and equipment provided under the Rural Infrastructure Fund project, and
- systems and equipment from Mindanao's New General Santos City Airport,

The first three systems listed above were selected for review because they had been identified by the Mission as being critical systems in response to an Office of the Inspector General questionnaire concerning the Y2K problem. The later two systems were not identified as critical by the Mission. However, they appeared to the auditor to be critical because systems failure could result in loss of life.

The five systems were judgmentally selected from 32 systems for which USAID had provided financing—22 of the systems had been identified as critical by USAID/Philippines and 10 others were identified by the auditors during the course of audit work.

We also held discussions with officials of the U.S. Embassy/Philippines concerning the Embassy's Y2K efforts and USAID/Philippines' role in those efforts.

## U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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MEMORANDUM

TO : Mr. Bruce Watts  
RIG/A/Manila

FROM : Priscilla Del Bosque  
*P. Del Bosque*  
Acting Mission Director  
USAID/Philippines

SUBJECT : Draft Report on the Audit of USAID/Philippines'  
Program-Funded Year 2000 Sensitive Activities

REF. : Busa/Watts memorandum dated and received  
September 23, 1998

RECEIVED

29 OCT 1998

RIG/MANILA

USAID/Philippines appreciates the collaborative efforts of RIG/A/Manila during this audit, which resulted in recommendations that address the needs of the Mission. These recommendations will allow us to effectively use our limited resources at the macro level, that is, working with GOP Agencies in coordination with the US Embassy and other partners (contractors and grantees) to identify major Y2K vulnerabilities in key sectors (i.e., transportation, communication, finance, health and energy), and devise possible remedies to continue achieving our development assistance objectives. We believe that this approach is significantly more cost effective, as opposed to just limiting our review to only USAID-funded commodities, or at the micro level, as implied by USAID General Notice no. 65. Even if we use all of our limited resources to ensure that USAID-funded commodities are Y2K compliant, our development programs would still be at risk because the above key sectors have significant non-USAID funded commodities that could also result in malfunctions of these systems.

At the macro level, USAID has already taken the lead in contacting the Technology and Livelihood Resource Center (TLRC) to identify and provide possible support in achieving their objectives. TLRC is the agency designated by the GOP to formulate and provide cost-effective Y2K solutions for government institutions. USAID has also taken the lead in assisting the US Embassy and other US Agencies in the Philippines to develop a

will provide a much wider impact on reducing the risk of Y2K problems in the Philippines that would affect the development assistance accomplishments of USAID/Philippines.

In addition to the above, USAID/Philippines presents the following comments and specific actions taken in response to the two audit recommendations and other aspects of the draft report-- for RIG/A/M's incorporation into the final audit report:

**Recommendation No. 1:** We recommend that USAID/Philippines establish a year 2000 working group composed of the Y2K Program Coordinator and representatives from each strategic objective team to ensure a more systematic approach to managing the year 2000 problem.

**Action Taken:**

USAID/Philippines has established a Year 2000 (Y2K) working group (Attachment 1) to ensure that the Y2K problem is properly and adequately addressed and managed, not only by us, but also by our development partners.

Based on this action, we request that Recommendation No. 1 be considered closed upon issuance of the final report.

**Recommendation No. 2:** We recommend that USAID/Philippines, in cooperation with the U.S. Embassy Manila's Year 2000 Committee, host country counterparts, and beneficiaries, develop an action plan for managing the year 2000 problem which:

**Comments:** Please change the word "beneficiaries" to "contractors/grantees."

- a) defines USAID/Philippines' role and responsibilities for the year 2000 effort and includes targets and time frames for carrying out those roles and responsibilities;
- b) specifies procedures for identifying priority [critical] systems at risk of failure because of the year 2000 problem and for mitigating that risk; and,

**Comments:** Please change the word "priority" to "critical" before "systems..."

- c) contains contingency plans for [critical] systems that cannot be repaired before calendar year 2000.

**Comments:** We believe it would be more cost effective for USAID/Philippines if the word "critical" is added before "systems..."

**Actions Taken:**

On September 18, 1998, USAID/Philippines issued a report to the U.S. Ambassador (Attachment 2) informing him of the actions that we have taken and plan to take in order to address the possible adverse effects that the Y2K problem could cause not only on our operations, but also on the operations and information technology systems and equipment that we have developed or purchased as part of our development assistance activities; and, advising him of the need for us to meet with his key staff to ensure that all necessary actions are properly initiated and coordinated in relation to the Y2K issue.

On September 24, 1998, the U.S. Embassy's Information Management Officer, Mr. Glenn A. Cockerill, responded to our letter (Attachment 3) indicating his plan for a Y2K meeting with us. On October 15, 1998, we attended an inter-agency meeting chaired by the U.S. Embassy. A Mission-wide Y2K working group was formed during that meeting.

- a) Under the Mission-wide Y2K working group, USAID/Philippines was tasked to take the lead in coordinating efforts and in liaising with the Government of the Philippines (GOP). The other agencies were also given their respective assignments. Given that this was just an initial meeting, however, the specific roles and responsibilities of each agency, including the targets and timeframes for carrying these out, have yet to be fully defined. We expect to achieve this in our subsequent Mission-wide Y2K meetings.
- b) USAID/Philippines is now formulating an action plan for managing the Y2K problem. As an initial step, we issued letters including a Y2K Evaluation Form (Attachment 4) to our development partners, the Presidential Commission on Year 2000 Compliance, and the Technology and Livelihood Resource Center (TLRC)--the agency designated by the GOP to formulate and provide cost-effective Y2K solution packages for government institutions, requesting from them any information as to the actions they have taken to ensure Y2K compliance of their systems.

We also met with the TLRC officials where we were able to learn more about the Y2K efforts and the plan of the GOP to set up a project team for each of the GOP's departments. In addition, the Y2K assessment team from Washington which is set to visit Manila in November 1998 will be conducting an assessment of USAID/Philippines' internal systems and program-related information technology applications, and will be identifying those systems which are most critical and would require Y2K remediation efforts. The team is expected to produce the following documentation: the full analysis undertaken; findings; cost estimation for remediation, validation and implementation; and, contingency

- c) In drawing up our Y2K action plan and the contingency plan for critical systems that cannot be repaired before calendar year 2000, we shall make full use of the information sourced from our development partners, the GOP, and the assessment results of the Washington's Y2K team, to include as part of the documentation required, a report on contingency planning.

USAID/Philippines agrees with Recommendation No. 2, but we request only the minor changes indicated above, which would allow us, in cooperation with the Embassy, host country counterparts, contractors and grantees, to develop specific procedures and the contingency plans on **critical** systems needed to accomplish our development assistance objectives, given the limited USAID resources. As discussed above, we have already taken significant actions to develop a plan that effectively addresses items 2a, b, and c. Therefore, upon issuance of the final audit report, we request that RIG/A/M states that a management decision has been reached and that we would request closure of this Recommendation when a plan, addressing the requirements of items 2a, b, and c, has been developed.

OTHER COMMENTS on:

1. **Air Navigational Systems Under the Rural Infrastructure Fund Project and Systems at Mindanao's New General Santos City Airport**

Shown in Attachment 5 are the required Y2K certifications obtained by the Air Transportation Office (ATO) from suppliers of navigational aid equipment, electronic equipment and systems.

2. **Systems Developed for the Philippines' Securities & Exchange Commission (page 7)**

In lieu of the statement "A breakdown in the systems could cause a major setback in the program and obliterate the gains already achieved under the program.", we suggest that this be replaced with the following:

"A breakdown in the systems could set the program back and require reprogramming to put the systems back on track."

3. **National Human Immunodeficiency Virus Sentinel Surveillance System (pages 7-8)**

The ideas presented in the first paragraph are repeated in the second paragraph and both paragraphs overstate the claim for the HIV Sentinel Surveillance: that the information it collects is used to identify epidemics in various parts of the country. The fact is, the System was set up and is used



other kinds of epidemics. In lieu of these paragraphs, therefore, we suggest the following revision:

"The epidemiological information provided by the Human Immunodeficiency Virus (HIV) Sentinel Surveillance System is used to guide national policy and target resources. The lack of information or incorrect information could result in improper policy and/or ineffective use of resources. Furthermore, information from this system is used to identify sections of the country which are showing rapid increases in HIV infection. Therefore, the failure of the system would make detection of rapid increases of HIV infection much more difficult and could delay the response to the HIV epidemic.

**4. Contraceptive Distribution and Logistic Management Information System**

Since the audit was conducted in July-August 1998, John Snow Inc., the technical assistance contractor working with the Department of Health under the Family Planning Logistics Project, has taken the necessary steps to ensure that the CDLMIS is Y2K compliant. All four suppliers of hardware and software for the systems listed below have provided the necessary certifications that their products are Y2K compliant.

- \* 12 computers
- \* 1 operating system for network
- \* 1 operating system for SQL
- \* the Powerbuilder software

Shown in Attachment 6 are Y2K certifications from the suppliers of these items. Based on this the CDLMIS can now be considered as Y2K compliant, and the potential problems cited in the second paragraph of the section are not likely to happen.

Attachments: as stated