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YEAR 2000 COMPUTING CHALLENGE

The District of Columbia Cannot Reliably Track Y2K Costs

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to update you on financial management issues related to the District's Year 2000 (Y2K) effort. In response to your questions, my statement today covers three points:

- the funds provided and the District's reported expenditures to date,
- the District's ability to track its Y2K costs, and
- the additional funding requested by the District.

As you know, the District of Columbia is acutely vulnerable to Y2K problems due to its widespread dependence on computer systems for delivering important public services. If these problems are not solved before the end of the year, the District may be unable to effectively carry out its core business operations that ensure public safety, collect revenue, educate students, and provide health care services. District officials are aware of the urgency of this task and have made several funding requests in order to have adequate resources to address it.

In June 1998, the District established the Year 2000 Program Management Office (PMO) and began preparing for Y2K readiness by initiating parallel efforts with this office and other offices, including the Office of the Chief Technology Officer (OCTO), the principal programmatic agencies, and the Office of the Chief Financial Officer (OCFO). PMO, OCTO, and the agencies are primarily responsible for implementing and reporting Y2K readiness initiatives, while OCFO is primarily responsible for tracking financial data in the District's financial management system.

To determine the District's financial management status relevant to its Y2K effort, we reviewed pertinent documents provided by the Office of the City Administrator (CA), OCFO, OCTO, and the Office of the Inspector General (OIG). We also interviewed the Interim City Administrator, the Chief Financial Officer, the Chief Technology Officer, and other officials from those offices and officials from the District's OIG and the District of Columbia Financial Responsibility and Management Assistance Authority.

We did not audit the District's Y2K reported funds provided or expenditures, and, accordingly, we do not express an opinion or any other form of assurance on these reported amounts. Our work was done in accordance with generally accepted government auditing standards in September 1999.

Funds Provided and Reported Expenditures

As illustrated in table 1, the District's records indicated that $97.8 million had been provided for Y2K efforts as of September 20, 1999.

Table 1: Reported Funds Provided to the District for Its Y2K Project

(Dollars in millions)

Date funds available	Source of funds	Amount
June 1998[a]	District funds	$10.0
October 1998[b]	District funds	6.0
October 1998[c]	Federal appropriations	20.0
March 1999	Federal emergency funds: First supplemental request[d]	61.8
Total		**$97.8**

[a]These funds represent part of the District's fiscal year 1998 budget.

[b]These funds represent part of the District's fiscal year 1999 budget.

[c]Public Law 105-277.

[d]These are appropriated funds for emergency expenses related to Y2K conversion of federal information technology systems.

Draft financial reports provided by the District for the period June 1998 to September 15, 1999, indicated that of the $97.8 million provided, $42.4 million had been spent and $53.8 million had been obligated, leaving available funds of $1.6 million. These draft financial reports also showed disallowed costs of $12.5 million. District officials told us that these disallowed costs resulted from recent reviews of amounts billed by contractors. According to District officials, support for the amounts provided in the draft financial reports was not readily available.

Unreliable Y2K Cost Data

District officials said that they have had significant problems in tracking Y2K costs and expenditures, which they attribute primarily to the frequent turnover in key financial positions. Over the past few weeks, District officials have spent considerable resources in their efforts to better track these costs and to determine the remaining unfunded needs by agency. During this time, we received inconsistent and unreliable cost data from several District officials and the cost schedules continued to change. It was apparent that the District did not have reliable financial data to manage the Y2K project costs.

Specifically, the District was not tracking the Y2K amounts obligated and spent and could not provide reliable, supportable data to us related to these amounts. For example, District officials stated that (1) invoices were received and paid even though the District's financial management system had no corresponding purchase orders or contract-related information, (2) some invoices were paid without adequate supporting documentation to justify the amounts paid, and (3) some contractor bills were paid and later had to be adjusted by the contractor due to inaccurate time charges. This was partially due to the District having no clear process for reviewing and verifying that invoices submitted by contractors were valid and should be paid prior to making payments.

The District's inability to monitor its spending is not a new issue. GAO and others have reported on the District's weak financial management processes and inability to account for its use of funds. For example, our prior work on financial management in the District, including several audits of the District's Highway Trust Fund's financial statements, have highlighted financial management problems similar to those the District now faces with Y2K implementation. In our audits of the District's Highway Trust Fund's financial statements for the periods ended September 30, 1996[1] and 1997,[2] we reported that the District had material financial management weaknesses in accounting for revenue and certain expenses.

In addition, in the District's fiscal year 1998 financial statements audit report,[3] the District's independent auditors reported the following material financial management weaknesses:

- lack of timely obligation of budget authority by the Office of the Chief Financial Officer,
- improper authorization of expenditures or obligations exceeding available funds,
- improper use of obligated or expended amounts,

[1] *Financial Audit: District of Columbia Highway Trust Fund's 1996 Financial Statements* (GAO/AIMD-98-30, December 15, 1997).

[2] *Financial Audit: District of Columbia Highway Trust Fund's Fiscal Year 1997 Financial Statements* (GAO/AIMD-98-254, September 30, 1998).

[3] *District of Columbia Government: Report on Internal Controls and Compliance with Laws and Regulations and Management Letter for the Fiscal Year Ended September 30, 1998* (January 29, 1999).

- noncompliance with laws and regulations regarding procurement of goods and services, and
- lack of timely reporting of transactions in the financial management system and failure to reconcile transactions until the year-end closing process.

In a recent report,[4] the District's Inspector General stated that because of its concerns about the propriety of Y2K funding for goods and services, it plans to initiate audit work in the areas of procurement, financial management, and contract administration functions relative to this initiative. The objectives of its upcoming audit will focus on whether the OCTO has controls in place to ensure the reasonableness of expenditures and to properly account for and monitor Y2K funding amounts and to comply with applicable regulations, policies, and procedures. District OIG officials said that this work will begin in the fall of 1999.

The District's difficulties in tracking its Y2K costs make it impossible to currently determine whether its Y2K funds were spent properly. This situation also makes it difficult for the District to reasonably determine additional funds needed to meet its future Y2K challenges. Further, without reliable cost information, the Congress lacks important information needed to properly evaluate the District's potential future funding needs to address remaining Y2K work.

Additional Funding Requested

As indicated in table 2, the District has requested $90.7 million in additional funding from the Office of Management and Budget (OMB) to complete its current Y2K efforts. District officials stated that these additional funds would be used primarily for Y2K remediation, testing, contingency planning, and additional resource requirements at the various District agencies.

[4] *Management Implication Report to the Mayor of the District of Columbia*, August 12, 1999, Government of the District of Columbia Office of the Inspector General.

Table 2: Additional Emergency Supplemental Funding Requests by the District

(Dollars in millions)

Activities	Federal emergency funds: second supplemental request[a]	Federal emergency funds: third supplemental request[b]	Total
Remediation	$1.2	$12.3	**$13.5**
Testing	0.3	0.0	**0.3**
Non-IT[c]	2.6	5.5	**8.1**
Desktop computing	4.6	3.2	**7.8**
Contingency planning	0.3	2.1	**2.4**
Other[d]	13.3	45.3	**58.6**
Total	**$22.3**	**$68.4**	**$90.7**

[a]This request was submitted to OMB in July 1999, and approved in August. According to a District official, OMB notified the District on September 22, 1999, that the funds were available.

[b]This request was submitted to OMB in August 1999. OMB is currently reviewing the request.

[c]This term refers to equipment and infrastructure devices with embedded processors, such as elevators and medical equipment.

[d]The term "Other" refers to the emergency dispatch systems, citywide initiatives, and additional agency resource requirements.

As of September 20, 1999, District officials could not tell us what additional funds, beyond these requests, might be needed to complete Y2K conversion compliance and contingency planning efforts. Until the District can better track its costs and improve the reliability of its financial data, it cannot assure the Congress that the additional funds requested will be spent as intended. Given the urgency of the task of addressing the Y2K problem, and the fact that the District is behind schedule, it is essential that the District have accountability for the funds provided and do careful planning, budgeting, and tracking of expenditures. Without this kind of discipline over its efforts, the District cannot offer assurance that funds intended for Y2K efforts have been properly or effectively spent.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions that you or Members of the Subcommittee may have.

Contact and Acknowledgement

For further information regarding this testimony, please contact Gloria L. Jarmon at (202) 512-4476, or by e-mail at *jarmong.aimd@gao.gov.* Individuals making key contributions to this testimony included Norma Samuel, Linda Elmore, Meg Mills, and Maria Zacharias.

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