

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 DISCLOSURE (UNAUDITED)
June 30, 1999

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, *Disclosures about Year 2000 issues*. The provisions of the GASB Technical Bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, require the State to make disclosures about its state of readiness in addressing Year 2000 issues for its internal computer systems and equipment.

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999. The Year 2000 issue refers to the fact that many computer programs only use the last two digits to refer to a year; consequently, both 1900 and 2000 would be referred to as "00". Computer programs that cannot recognize the difference between those two years may fail or create errors. Programs that can recognize the difference, or are effectively converted to do so, are considered Year 2000 compliant.

Typically, conversion efforts to address Year 2000 issues progress through the following four stages.

- * Awareness--Establishing a budget and project plan for dealing with year 2000 issues.
- * Assessment--Identifying the systems and components for which year 2000 compliance work is needed.

- * Remediation--Making changes to systems and equipment.

- * Validation/Testing--Testing the changes made to systems and equipment and reviewing the results.

PRIMARY GOVERNMENT

The Year 2000 information for the three State universities is presented separately at the conclusion of this section.

A. AGENCIES AND DEPARTMENTS

The State has been actively involved in the effort to identify, prioritize and repair Year 2000 computer problems since late 1995. The Government Information Technology Agency (GITA) is coordinating the effort by the State to meet the challenge of the Year 2000 project. The State has completed an inventory of computer systems and other electronic equipment.

The State has identified 239 mission-critical applications that are intrinsically important in protecting public health and safety, meeting specific legal mandates, or providing a critical public service.

As of June 30, 1999, the State has completed the Awareness, Assessment, Remediation and Validation/Testing stages for all of its mission-critical applications, except the following. (C means complete, P means in process and A means still needs to be addressed.)

	Awareness	Assessment	Remediation	Validation/ Testing	Comments
Department of Administration					
Human Resources Management System – Payroll System	C	C	C	P	Completed 7/1/99
KOMMAND – Billing for Internal Service Funds	C	C	C	P	Completed 8/1/99
Department of Corrections					
Adult Inmate Management System	C	C	C	P	Completed 8/31/99
Department of Transportation					
New Financial System	C	C	P	P	Completed 9/30/99
Freeway Management System	C	C	P	P	
Department of Economic Security					
DACS Ledger	C	C	P	P	
DDD Assists – Arizona Social Services Information Tracking	C	C	C	P	Completed 8/31/99
Unemployment Insurance/Tax	C	C	C	P	Completed 8/13/99

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 DISCLOSURE (UNAUDITED)
June 30, 1999

	Awareness	Assessment	Remediation	Validation/ Testing	Comments
Department of Health Services					
Birth Certificates	C	C	P	P	Completed 10/29/99
Death Certificates	C	P	P	P	Completed 10/28/99
CIS	C	C	P	P	Completed 10/29/99
VR Enumeration	C	P	P	P	
VR IND'Y and OCCN	C	P	P	A	
Fetal Death	C	C	P	A	
State Lab Licensure	C	C	C	P	Completed 8/31/99
Department of Revenue					
Transaction Privilege Tax	C	C	C	P	Completed 7/23/99
Electronic Funds Transfer	C	C	C	P	Completed 7/1/99
Data Entry	C	P	A	A	

The Legislature has appropriated a total of \$44 million to date to supplement state agency commitments to work on Year 2000 projects. The total estimated cost for repair of Year 2000 problems is now \$125 million, of which 62 percent will come from reallocations of funding and personnel within the agencies. The State has no contractual obligations with outside parties for remediation services. However, approximately \$375 thousand has been reserved for additional costs associated with these efforts, if needed.

The State exchanges data with a number of federal, local and private entities. Examples include the Internal Revenue Service, the Federal Bureau of Investigation, and the U.S. Department of Health and Human Services. If the systems in the State are repaired, but receive data from entities whose data is not four-digit year date compliant, the result could be the corruption of the data in the compliant system. The State has identified 1,770 data exchanges. As of June 30, 1999, the State had completed the awareness, assessment, remediation and validation/testing stages for 1,712 data exchanges. The remaining 58 are in the validation/testing stage with planned completion dates of December 1999 or earlier.

In addition to the mission-critical applications, the State uses equipment that is dependent on microchip technology such as traffic lights, prison doors, building control equipment and heavy machinery. While a vast majority of these computer chips have no date sensitivity, a percentage is date dependent. The State had substantially completed the assessment, remediation and validation/testing stages for its microchip technology as of June 30, 1999, with planned completion dates of December 1999 or earlier.

B. ARIZONA STATE UNIVERSITY

Arizona State University (the University) started in 1994 to identify the major electronic data processing and other systems that needed to be updated or replaced in order to make these systems year 2000 compliant. As of June 30, 1999, the Year 2000 compliance status of the University's four major informational electronic data processing systems was as follows: Human Resources System: A Year 2000 compliant vendor system release had been installed and was fully operational; Student Information Systems: Needed changes for the systems to be Year 2000 compliant were completed with the University being near completion of the validation and testing stage in regards to the Year 2000 changes that had already been implemented; Financial System: A Year 2000 compliant new financial system had been installed as of June 30, 1999 and was fully operational as of September 3, 1999; and Telecommunication System: A Year 2000 compliant vendor system release for the main telephone switch had been installed and was fully operational.

In addition to the above noted electronic data processing systems, there is certain facility-related equipment that is dependent upon microchip technology and Year 2000 compliant software; e.g., central plant, security and fire alarms, elevators and energy management systems. Prudent measures have been taken to avoid or at least substantially mitigate any major facility-related equipment problems when Year 2000 arises. A task force was formed in the summer of 1998 to assess the facility-related equipment that may be impacted by microchips that are not Year 2000 compliant. As of June 30, 1999, the University had substantially completed the assessment of its facilities-

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 DISCLOSURE (UNAUDITED)
June 30, 1999

related equipment, identified non-compliant components, replaced non-compliant microchips and software and completed testing of all major systems that could impact University-wide operations. Certain noncritical systems are also being updated with planned completion dates of December 1999 or earlier.

C. NORTHERN ARIZONA UNIVERSITY

The Northern Arizona University (the University) is aware of this problem and has been taking the necessary corrective action to its mission-critical systems since September 1997. The University has identified nine computer systems and electronic equipment groups that are critical to its operations (payroll, human resources, telecommunications, facilities, financial aid, student business services, admissions, student matriculation, and accounting.) These mission-critical systems and equipment groups affect the financial, personnel, and safety aspects of the University's operations. The University has completed the validation/testing stage for the telecommunications, facilities, and admissions systems. Remediation has been completed for all other systems and the University is in the validation/testing stage for those systems.

D. UNIVERSITY OF ARIZONA

The University of Arizona (the University) started in 1994 to identify the mission-critical electronic data processing and other systems that needed to be updated or replaced in order to make these systems Year 2000 compliant. The awareness and assessment stages were completed in 1996. Remediation activities began in 1997. The University has no contractual obligations with outside parties for remediation services. However, approximately \$350 thousand has been reserved for additional costs associated with these efforts, if needed.

As of June 30, 1999, the Year 2000 compliance status of the University's four mission-critical electronic data processing systems was as follows: Human Resources System: Needed changes for the system to be Year 2000 compliant had been installed and were fully operational by February 1998; Student Information System: Needed changes for the system to be Year 2000 compliant were completed (remediated), and the validation and testing stage had begun. Completion of this process is projected for Fall 1999; Financial System: A Year 2000 compliant vendor system release had been installed and was fully operational by August 1998; and Telecommunication System: Needed changes to the phone switch, voice mail system, data networks, and servers used for the campus backbone to address Year 2000 compliance were completed (remediated), and the validation/testing stage had begun. Remediation is still occurring on the

telephone system, with completion of this stage and all testing and validation processes projected for Fall 1999.

In addition to the above noted electronic data processing systems, there is certain other electronic equipment (critical to the operations of the University) that is dependent upon microchip technology, e.g., central plant, security and fire alarms, elevators, credit card readers, and energy management systems. Prudent measures have been taken to avoid or at least substantially mitigate any major electronic equipment problems when Year 2000 arises. As of June 30, 1999, the University has substantially completed the assessment of this equipment and was in the remediation and validation/testing stages of making the needed changes to be Year 2000 compliant, with planned completion dates of December 1999 or earlier. In addition, the University has also acquired a site license for a work station remediation tool. This tool has been freely distributed to all campus users requesting it for the purpose of ensuring Year 2000 compliance for individual microcomputers.

BLENDED COMPONENT UNITS

A. ARIZONA STATE RETIREMENT SYSTEM

In July 1994, the Arizona State Retirement System (ASRS) began planning the redevelopment and execution of its entire information system. This effort is known as PERIS – Public Employee Retirement Information System. As part of the PERIS project, ASRS completed an inventory of ASRS computer systems and identified Membership Processing, Contribution Accounting, Pension Benefit Processing and Health Insurance applications that may be affected by the Year 2000 issue and that are necessary to conduct ASRS operations:

The validation and testing stage of Membership Processing and Contribution Accounting applications were both near completion at June 30, 1999. The validation/testing stage was completed in mid-October 1999 and these systems were implemented in late October 1999.

Development of the PERIS-Pension Benefit Processing system was suspended at the end of fiscal year 1999. The PERIS-Health Insurance system remediation stage was completed in September 1999 and the validation and testing of this system was completed in mid-November 1999. The PERIS-Health Insurance system was implemented in December 1999.

Remediation of the current ASRS Pension Benefit Processing system was completed in the last quarter of fiscal year 1999. Validation of this system was

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 DISCLOSURE (UNAUDITED)
June 30, 1999

completed in October 1999 and the Year 2000 compliant code was implemented in November 1999.

Additionally, a vendor is currently performing the Pension Benefit Payment Processing system transactions. The vendor completed remediation of this system in December 1998. Validation and testing of this system was completed in October 1999 and implemented in November 1999.

B. PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

The Public Safety Personnel Retirement System (the System) has completed an inventory of computer systems and other electronic equipment that are necessary to conduct the System's operations, which may be affected by the Year 2000 issue. These systems have been tested and validated to comply with any problems created by the Year 2000 issue. The System has also conducted tests with its bank to ensure that the bank is Year 2000 compliant for direct deposit of pension payments.

C. ELECTED OFFICIALS' RETIREMENT PLAN

The Elected Officials' Retirement Plan (the Plan) has completed an inventory of computer systems and other electronic equipment that are necessary to conduct the Plan's operations, which may be affected by the Year 2000 issue. These systems have been tested and validated to comply with any problems created by the Year 2000 issue. The Plan has also conducted tests with its bank to ensure that the bank is Year 2000 compliant for direct deposit of pension payments.

D. CORRECTIONS OFFICER RETIREMENT PLAN

The Corrections Officer Retirement Plan (the Plan) has completed an inventory of computer systems and other

electronic equipment that are necessary to conduct the Plan's operations, which may be affected by the Year 2000 issue. These systems have been tested and validated to comply with any problems created by the Year 2000 issue. The Plan has also conducted tests with its bank to ensure that the bank is Year 2000 compliant for direct deposit of pension payments.

DISCRETELY PRESENTED COMPONENT UNITS

A. STATE COMPENSATION FUND

The State Compensation Fund, reported on basis other than Generally Accepted Accounting Principles, did not provide any Year 2000 disclosures in its separately-audited financial statements for the year ended December 31, 1998.

B. UNIVERSITY MEDICAL CENTER

The University Medical Center (UMC) has computer systems with both operational and informational functions that will be impacted by the Year 2000 issue. The UMC is continuously updating and evaluating the assessments of these systems. Systems that are affected by the Year 2000 issue are in the remediation stage, validation/testing stage or the implementation stage.

C. ARIZONA POWER AUTHORITY

The Arizona Power Authority did not provide any Year 2000 disclosure in its separately-audited financial statements.

D. WATER INFRASTRUCTURE FINANCE AUTHORITY

The Water Infrastructure Finance Authority utilizes the State's computer systems. The status of these systems is covered above under Primary Government - Agencies and Departments.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the State is or will be Year 2000 ready, that the State's remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be Year 2000 ready.