
Year 2000 (Y2K) Readiness
of Guaranty Agencies

MANAGEMENT INFORMATION REPORT



**Control Number 11-80015
May 1999**

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U.S. Department of Education
Office of Inspector General
Washington, D.C.

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MEMORANDUM

DATE: May 5, 1999

TO: Greg Woods
Chief Operating Officer
Office of Student Financial Assistance Programs

Larry Oxendine
Director, Guarantor and Lender Oversight Service

Bob Davidson
Director, Department of Education Year 2000 Project Team

FROM: Jim Cornell
Area Manager, Eastern Area
Washington D.C. Field Office

SUBJECT: Transmittal of *Management Information Report* "Year 2000 (Y2K) Readiness of Guaranty Agencies" -- Control Number 11-80015

Attached is a copy of the subject report. From August 1998 through early March 1999 we conducted reviews at six guaranty agencies (GAs) to evaluate the status of their Y2K preparedness. This work was performed to supplement the Department's own activities in this area. The objectives of the individual reviews were to determine whether the selected GAs:

- 1) Developed adequate management plans to achieve Y2K compliance for their own computer systems and for those of their data exchange partners by March 31, 1999; and
- 2) Were successfully meeting milestones for the Y2K phases designated by the Office of Management and Budget and the General Accounting Office (GAO) as: awareness, assessment, renovation, validation, and implementation.

We already provided the Department with Management Information Reports communicating the results of our fieldwork at each GA visited. This report addresses the systemic issues relating to Y2K readiness disclosed during our on-site work at the GAs and provides suggestions regarding actions the Department should include in its monitoring of GAs' Y2K readiness. Because this is not an audit report, you are not

required to respond to our suggested actions or track any actions taken by your office to implement these suggestions.

We discussed these Y2K issue areas and our potential recommendations during our February 19, 1999 exit conference with Department representatives. We have used the feedback we received at that meeting to revise our reporting format and refine our initial recommendations into the suggested actions presented in this report.

In accordance with the Freedom of Information Act (Public Law 90-23), final reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent that information contained therein is not subject to exemptions in the Act. Copies of this Management Information Report have been provided to the offices shown on the distribution list enclosed in the report.

OIG has agreed to assist the Department in conducting additional Y2K readiness reviews at GAs. Towards this end, we plan to work with the Department and its contractor to determine GAs that are candidates for on-site reviews and perform work at a subset of those agencies. OIG will provide the results of our additional reviews to the Department for its use in the monitoring of Y2K readiness within the GA community.

We appreciate the cooperation shown to us by the Guarantor and Lender Oversight Service staff working with us both here in Washington D.C. and with our regional auditors. If you have any questions regarding this report please call me at 205-9538 or Jack Rouch at 260-3878.

ATTACHMENT

YEAR 2000 (Y2K) READINESS OF GUARANTY AGENCIES

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EXECUTIVE SUMMARY

In March 1998, the U.S. Department of Education (the Department) issued *Dear Colleague Letter 98-G-306* requiring guaranty agencies (GAs) participating in the Federal Family Education Loan Program (FFELP) to take certain preparatory measures to ensure their Year 2000 (Y2K) compliance by March 1999. During the period August 1998 through early March 1999 we conducted on-site reviews at the following six GAs, collectively accounting for 51 percent of the FFELP loans guaranteed in FY 1997, to determine the status of their Y2K preparedness:

- Great Lakes Higher Education Corporation - Madison, Wisconsin
- USA Group - Fishers, Indiana
- California Student Aid Commission - Rancho Cordova, California
- Florida Office of Student Financial Assistance - Tallahassee, Florida
- Tennessee Student Assistance Corporation - Nashville, Tennessee
- Illinois Student Assistance Commission - Deerfield, Illinois

We performed these reviews to supplement the activities of the Guarantor and Lender Oversight Service (GLOS) and its contractor, Booz•Allen & Hamilton (Booz•Allen) with respect to ensuring GA Y2K compliance by March 1999. The objectives of the individual reviews were to determine whether the selected GAs 1) developed adequate management plans to achieve Y2K compliance for their own computer systems and for those of their information/data interface partners by March 31, 1999; and 2) were successfully meeting milestones for the Y2K phases. We provided the Department with individual Management Information Reports communicating our results at each GA.

This report presents systemic issues relating to Y2K readiness disclosed during our on-site work. It also provides our suggestions regarding actions the Department should include in its monitoring of GAs' Y2K readiness to ensure the continuation of the FFELP loan guarantee functions after December 31, 1999.

Review Results

We found the GAs were in varying stages of their Y2K preparations. Most of the GAs anticipated completing their Y2K readiness implementation on or before March 31, 1999. Two agencies, however, did not expect to complete their implementation until June 1999. Our interim work at GAs does not provide a basis for concluding on their successful completion of Y2K implementation. The Department will need to continue its monitoring efforts to ensure that GAs are prepared for the Year 2000. GLOS sent letters to all GAs requesting a Y2K compliance statement signed by the GA's CEO as of March 31, 1999. They also requested GAs to submit their Y2K contingency plans by February 15, 1999.

Our work at the GAs identified three issues that should be addressed by the Department as it continues its monitoring efforts for all 36 guaranty agencies. These issues include data exchange, contingency planning, and systems/servicer changes during 1999.

- Data Exchange: Entities are at risk if one or more of their data exchange/trading partners have computer failures that either prevent them from sending data or cause them to send erroneous data. One GA we visited had made no plans to query its partners about their Y2K readiness status or conduct Y2K interface testing with them.
- Contingency Planning: Contingency/business continuity planning for Y2K must go beyond the typical disaster recovery plan and address unique aspects of the Year 2000 problem. Five of the GAs we visited had not established Y2K contingency plans at the time of our fieldwork, although three had plans to develop Y2K tailored contingency plans. The last agency visited developed contingency plans, however it had no assurance that the identified backup computer would have sufficient capacity to process its applications.
- Contract/Systems Changes: The implementation of a new system in 1999 is a risk factor that may negatively impact a GA's Y2K readiness. The Department should be aware of and actively monitor GAs who implement new systems in 1999. One GA we visited had plans to hire a new data service provider and implement a new system in June 1999. The planned change of servicers was not apparent in the GA's Y2K renovation plans submitted to the Department. Another agency's servicer planned to implement a new system in April 1999.

Suggested Actions

We suggest the Chief Operating Officer (COO) of the Office of Student Financial Assistance Programs direct GLOS and the Program Systems Service (PSS) to closely monitor the progress of GAs' Y2K readiness efforts by:

- requiring high-risk GAs to submit periodic progress reports;
- requiring GAs to validate their Y2K readiness certification using an Independent Verification and Validation Process;
- developing and implementing contingency plans to ensure continuity of guaranty operations for GAs not exhibiting adequate Y2K progress;
- issuing guidance on minimum acceptable interface testing with trading partners;
- requiring GAs to participate in interface testing with the Department;
- reviewing GA contingency plans to ensure they reasonably address Y2K risk;
- sharing lessons learned in the Department's own contingency planning efforts; and
- identifying and monitoring GAs changing data service providers or implementing significant new systems in 1999.

Future OIG Work Relating to GA Y2K Readiness

OIG has agreed to assist GLOS and Booz•Allen in conducting additional Y2K readiness reviews at GAs. We plan to work with GLOS and Booz•Allen to determine GAs that are candidates for on-site reviews and perform work at a subset of those agencies. OIG will provide the results of our additional reviews to GLOS for its use in the monitoring of Y2K readiness within the GA community.

BACKGROUND

The Department is in the process of ensuring that all of its computer systems and the interface between them and the systems of its trading partners are Y2K compliant. Y2K compliance (or readiness) refers to the capability of a system to correctly process, provide, and/or receive data containing dates from, into, and between the 20th and 21st centuries. The system's ability to accurately process date/time data is crucial to continuing a business' normal operations beyond the turn of the century. Failure to address this issue could result in a system's erroneous execution or the inability to execute at all.

Dear Colleague Letter 98-G-306

In March 1998, the Acting Deputy Assistant Secretary for Student Financial Assistance Programs issued *Dear Colleague Letter 98-G-306 (DCL)* to GAs participating in FFELP. The *DCL's* purpose was to reinforce the importance of addressing the Y2K issue through aggressive strategies and action plans. It provided an overview of the Department's methodology and milestones and requested the GAs to submit their management plans for ensuring Y2K compliance by March 1999. All thirty-six GAs currently participating in FFELP responded to the request. However, there was inconsistency in the scope of their responses. Some GAs provided in depth Y2K planning/status documents, whereas others submitted one page general milestone outlines.

Booz·Allen Contract

During the summer of 1998, GLOS entered into a contract with Booz•Allen to perform a risk assessment of the GAs' Y2K readiness. GLOS and its contractor approached the risk assessment study employing a two-phase approach. In Phase One, Booz•Allen conducted telephone interviews during the fall of 1998 with all thirty-six GAs participating in FFELP. Booz•Allen had previously provided the GAs the list of questions to be discussed in the interview so that they could research their response in preparation for the calls. The questions related to four aspects of a GA's Y2K readiness efforts, including its 1) overall management of the Y2K problem; 2) technical approach; 3) approach to external trading partners; and 4) communication with the Department of Education. Each GA's response to the questionnaire was scored in accordance with a risk assessment criteria matrix developed by the contractor. In Phase Two conducted in early 1999, Booz•Allen made on-site reviews at GAs designated by GLOS to more thoroughly assess their Y2K preparedness.

Future OIG Effort Regarding GA Y2K Readiness

After considering the results of our work at GAs in conjunction with Booz•Allen's GA Y2K assessments commissioned by GLOS, the Department's Y2K Steering Committee has decided that additional reviews in this area are warranted. GLOS has contracted with Booz•Allen to continue their on-site reviews at GAs. To maximize the Department's on-site presence, OIG plans to supplement this effort by performing Y2K readiness reviews at additional GAs not visited by the contractor. We anticipate working with GLOS and Booz•Allen to determine the population of GAs which are candidates for on-site reviews and perform work at a subset of those agencies. OIG will provide the results of our additional reviews to GLOS for its use in the monitoring of Y2K readiness within the GA community. These reviews would be similar to those conducted by Booz•Allen in

Phase Two of its contract with GLOS. Our coordinated approach with GLOS and Booz•Allen would allow for on-site reviews to be conducted at a larger number of GAs.

OBJECTIVES

This report presents systemic issues relating to Y2K readiness disclosed during our on-site work at six GAs. It also conveys our suggestions regarding actions we think that the Department should include in its monitoring of GAs' Y2K readiness to ensure the continuation of the FFELP loan guarantee functions after December 31, 1999. We performed these reviews to supplement the activities of GLOS and its contractor, Booz•Allen with respect to ensuring GA Y2K compliance by March 1999. The objectives of the individual reviews were to determine whether the selected GAs:

- 1) Developed adequate management plans to achieve Y2K compliance for their own computer systems and for those of their information/data interface partners by March 31, 1999; and
- 2) Were successfully meeting milestones for the Y2K phases designated by the Office of Management and Budget and GAO as: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation (with ongoing contingency planning) as established in their management plans.

We provided the Department with individual Management Information Reports communicating our results at each GA.

The objective of this Management Information Report is to present systemic issues relating to Y2K readiness disclosed during our on-site work and provide suggested actions for the Chief Operating Officer (COO) of the Office of Student Financial Assistance Programs.

SCOPE AND METHODOLOGY

Planning and Research

Our planning took place in Washington D.C. during May and June 1998. We obtained and reviewed the March 1998 *Dear Colleague Letter 98-G-306 (DCL)* and copies of the GAs' Y2K management plans provided in response to the *DCL*. We ascertained whether each GA had presented a stated methodology for achieving its Y2K compliance by March 31, 1999, as well as, identifying the GAs' stated target dates for meeting each of the Y2K phases. We quantified loan number and dollar volume of the GAs' respective FFEL participation (FY 1997 activity and original principal outstanding as of September 30, 1997) using statistical data found at the Department's Internet Website or obtained from GLOS. We also noted those GAs whose plans indicated that they would not meet Y2K compliance by March 31, 1999. Using this information and General Accounting Office (GAO) guidance relating to preparing for Y2K compliance, *"Year 2000 Computing Crisis: An Assessment Guide"* - GAO/AIMD-10.1.14 (September 1997), we prepared our review guide.

The GLOS staff informed us about their activities to ensure the Y2K readiness of GAs. These activities included entering into a contract with Booz•Allen & Hamilton (Booz•Allen) to conduct an assessment of all thirty-six GAs' efforts to prepare for Y2K. We met with GLOS during the planning stage and throughout the period that we issued the individual Management Information Reports. Through these meetings we have ascertained GLOS' perspective with respect to its monitoring of the GAs' Y2K preparations and discussed its responsibilities and the perimeters of its authority with respect to GAs. We have participated in several of Booz•Allen's GA Y2K assessment status briefings with GLOS and had provided feedback in the development of the questionnaire used by Booz•Allen in its Phase One assessment activities.

The GA Visits

We worked with GLOS to determine which of the 36 GAs the OIG would visit to review their Y2K preparation in greater depth. During our planning process, we judgmentally selected the following five GAs for on-site review: 1) Great Lakes Higher Education Corporation, Madison, Wisconsin; 2) USA Group, Fishers, Indiana; 3) Florida Office of Student Financial Assistance, Tallahassee, Florida; 4) California Student Aid Commission, Rancho Cordova, California; and 5) Tennessee Student Assistance Corporation, Nashville, Tennessee. We believe that our sample represented a realistic cross-section of the overall GA community on the basis of a mixture of size of portfolio, risk, state versus non-profit, etc. Subsequently, we performed an additional Y2K readiness review at the Illinois Student Assistance Commission concurrent with other planned work at the agency. These GA on-site visits were made by teams primarily composed of OIG auditors from OIG regional offices. A GLOS staff member accompanied the teams visiting the Florida Office of Student Financial Assistance and the Tennessee Student Assistance Corporation.

The GA on-site reviews were made August 1998 through early March 1999, with each approximately two weeks in duration. At each GA, we determined the accuracy of the GA's Y2K plan/milestones (as submitted to GLOS) for phases listed as completed or underway for each Y2K phase. We interviewed staff having responsibility for the planning and conducting of Y2K readiness efforts. We obtained and reviewed documentation and/or other evidentiary materials relating to the subject. The

GA's Y2K plan and milestones as indicated in its response to the *DCL* was compared with documented evidence that its indicated activities are successfully progressing as planned and in accordance with the guidance promulgated in GAO's September 1997 guidance for Y2K preparation, "*Year 2000 Computing Crisis: An Assessment Guide*" - *GAO/AIMD-10.1.14*. In this guidance GAO describes five phases which cumulatively bring established systems into Y2K compliance: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation, with contingency planning on an on-going basis. Our on-site visits to the GAs were conducted concurrently with Phase One of Booz•Allen's risk assessment

As our fieldwork was completed at each GA, a Management Information Report addressing our determinations regarding the individual GA visited was prepared and issued by the audit team. The Management Information Reports did not present suggested actions. This report presents the systemic issues relating to Y2K readiness disclosed during our on-site work at the GAs. It also conveys our suggestions regarding actions we think that the Department should include in its monitoring of GAs' Y2K readiness to ensure the continuation of the FFELP loan guarantee functions after December 31, 1999. We believe that the information gathered through our on-site examination at selected GAs, in concert with results of the Booz•Allen's assessments, provided GLOS with a realistic assessment as to the existing potential Y2K failure risks associated with the GA community.

OIG Follow-up with GAs

During February 1999 we telephoned the GAs that we had previously visited and spoke with representatives having Y2K responsibilities. These calls were made to provide each GA the opportunity to inform us as to its Y2K related progress since the time of our on-site reviews during the summer and fall of 1998. The information provided by the GAs during these telephone calls does not impact the Y2K-related systemic issues or our suggested actions to the Department addressed in the body of this report.

OIG Follow-up with the Department

We discussed systemic Y2K issue areas and potential suggestions with Department representatives during an exit conference in February 1999. We used the feedback we received at that meeting to revise our reporting format and refine our initial recommendations into the suggested actions presented in this report. We acknowledge that some of our suggested actions are already being considered or in the process of being implemented in some form by the Department.

We conducted our review in accordance with generally accepted government auditing standards applicable to the nature and scope of our review as described.

RESULTS AND SUGGESTED ACTIONS

We performed Y2K readiness reviews at six guaranty agencies to supplement the activities of the Guarantor and Lender Oversight Service (GLOS) and its contractor, Booz•Allen & Hamilton (Booz•Allen) with respect to ensuring GA Y2K compliance by March 1999. Our reviews were conducted using guidance provided in the General Accounting Office (GAO) publication, *"Year 2000 Computing Crisis: An Assessment Guide" - GAO/AIMD-10.1.14 (September 1997)*. This guidance describes a five-phase process for addressing the Y2K issue. The five phases include awareness, assessment, renovation, validation, and implementation. GAO discussed the specific objectives to be addressed in each phase and provided a roster of key processes supporting achievement of the objectives. The objectives of our reviews were to determine whether the selected GAs 1) developed adequate management plans to achieve Y2K compliance for their own computer systems and for those of their information/data interface partners by March 31, 1999; and 2) were successfully meeting milestones for the Y2K phases. We provided the Department with individual Management Information Reports communicating our results at each GA.

This Management Information Report presents systemic issues relating to Y2K readiness disclosed during our on-site work and provides suggested actions for the Chief Operating Officer (COO) of the Office of Student Financial Assistance Programs. We have concluded that the Department needs to continue its monitoring of GA efforts to prepare for the Year 2000. Additionally, we identified three issues that should be addressed by the Department as it continues its monitoring efforts for all 36 guaranty agencies. These issues include data exchange, contingency planning, and systems/servicer changes during 1999.

ED Needs to Continue its Monitoring Efforts

We found that the six GAs were in varying stages with respect to their Y2K preparations. Five of the GAs had completed their awareness and assessment phases and were making progress in the remaining phases of their Y2K project management process. The other GA had completed its awareness phase, was two-thirds complete as to its assessment phase, and had started limited efforts for the remaining phases. Most of the GAs expected to complete their Y2K readiness implementation on or before March 31, 1999. Two agencies, however, did not expect to complete their implementation until June 1999.

Our interim work at GAs does not provide a basis for concluding on whether the GAs successfully completed their Y2K readiness efforts by the March 31, 1999 deadline. The Department will need to continue its monitoring efforts to ensure that GAs are prepared for the Year 2000. GLOS sent letters in January, 1999 to all GAs requesting a Y2K compliance statement signed by the GA's CEO as of March 31, 1999. They also requested GAs submit their Y2K contingency plans by February 15, 1999.

OIG has agreed to assist GLOS and Booz•Allen in conducting additional on-site Y2K readiness reviews at GAs. We will work with GLOS and Booz•Allen to determine GAs that are candidates for on-site reviews and perform work at a subset of those agencies. For consistency, OIG and Booz•Allen will perform identical procedures and provide the results to GLOS for its use in the monitoring of Y2K readiness within the GA community.

SUGGESTED ACTIONS

In addition to the planned on-site reviews, we suggest the COO direct GLOS to:

1. Continue monitoring the progress of all GAs, reevaluating their Y2K readiness classification as appropriate. As part of this monitoring process, GLOS should require GAs considered as high risk to submit periodic written status reports.
2. Consider requiring each GA to validate their Y2K readiness certification using an Independent Verification and Validation Process.
3. Develop and implement detailed contingency plans to ensure continuity of guaranty operations for GAs not exhibiting adequate Y2K progress.

GAs May Not Adequately Address Data Exchange Issues

Any entity is at risk if one or more of its data exchange partners have computer failures that either prevent them from sending data or cause them to send erroneous data. GAO's Y2K readiness publication, *"Year 2000 Computing Crisis: An Assessment Guide" – GAO/AIMD-10.1.14* (September 1997) recommends that an entity begin addressing interface and data exchange issues in the assessment phase of its Y2K renovation project. During each site review, we determined whether the GA was addressing interface and data exchange issues. We reviewed documentation to determine if the GA was:

- Analyzing its dependency on data provided by other organizations;
- Contacting all entities with whom it exchanges data to determine their Y2K readiness plans/status;
- Identifying the need for data bridges and filters;
- Developing contingency plans in the event that no data or invalid data is received from external sources; and
- Developing a validation process to determine that incoming data meets Y2K requirements.

Most GAs we visited were taking steps to address interface and data exchange issues, however one's approach did not meet our criteria for adequately addressing data exchanges. The GA believed that data exchange was not a concern because it did not require any format changes for data interfaces. Although the GA did not make any data format changes, we believe that it may still be at risk if its data exchange partners have computer failures that either prevent them from sending data or cause them to send erroneous data.

SUGGESTED ACTIONS

We suggest the COO direct:

4. GLOS to issue guidance to GAs on minimum acceptable end-to-end testing with trading partners so as to reasonably identify potential problems. This guidance should describe the types of transactions to test and criteria for selecting trading partners for testing.
5. PSS to develop and clearly publicize a testing strategy for its data interfaces with GAs and require all GAs to participate.

GAs May Not Prepare Adequate Y2K Contingency Plans

During our on-site reviews we planned to review the GAs' contingency plans to determine if they were reasonable and were adequately detailed to FFELP. Despite their efforts to renovate, validate and implement their information systems, all organizations remain vulnerable to the disruption of its business processes due to the Y2K issue. Because of these risks, organizations should have business continuity and contingency plans to ensure that core business processes continue. Y2K contingency planning must go beyond the typical disaster recovery plan and address unique aspects of the Year 2000 problem. As we have seen in the Department's own contingency planning process, plans should incorporate factors such as: core business functions, risk mitigation, resource allocation, infrastructure concerns, and alternative external sources for services and/or data should current trading partners experience shutdowns.

Five of the GAs that we visited had not established Y2K contingency plans at the time of our fieldwork, although three did recognize the need to develop Y2K tailored contingency plans. The other two had no plans at the time to develop Y2K tailored contingency plans. One GA stated that it did not need to update or develop disaster recovery plans that are Y2K specific and intended to handle a Y2K disaster the same as it would any other system disaster. The other GA stated that it would rely on its contractor to correct these failures. Both indicated that they would revert to manual processing, but did not have detailed plans for implementing these procedures. We believe that the normal disaster recovery procedures may not address the unique aspects of the Y2K issue and that manual procedures need to be documented and appropriately tested.

The last agency we visited did develop contingency plans. In this case, the GA was relying on a backup computer facility managed by the State government. However, officials acknowledged that this backup computer currently does not have sufficient capacity to process applications for all State agencies. The GA has been assigned a priority of four on a scale of one to five (one being the highest) in terms of having its applications run on the backup computer. Therefore, there is no assurance that the identified backup computer would have sufficient capacity to process its applications.

GLOS sent letters in January 1999 to all GAs requesting the disclosure of the GA's Y2K contingency plans by February 15, 1999. Selection of GAs for future on-site reviews will be based in part on the adequacy of the contingency plans submitted.

SUGGESTED ACTIONS

In addition to the planned on-site reviews, we recommend the COO direct GLOS to:

6. Review materials submitted by GAs in response to GLOS' January 1999 letter, to ensure that all GAs submit contingency plans that reasonably address Y2K risks. We recommend that GLOS use GAO's *"Year 2000 Computing Crisis: Business Continuity and Contingency Planning"* - GAO/AIMD-10.1.19 (August 1998) as guidance for determining the adequacy of the contingency plans.
7. Share "lessons learned" in the Department's own contingency planning process with GAs. GAs may be able to employ similar planning for their operations.

Changes of Servicers or Systems in 1999 Pose a Risk to Y2K Preparedness

During our on-site reviews, we were informed that one of the GAs was in the process of developing a Request for Proposal for a new servicer to manage its loan management system. Its intent was to have the new servicer begin operations in June 1999, which would coincide with the planned completion of Y2K renovations to its current student loan management system. The planned change of servicers was not apparent in the GA's Y2K renovation plans submitted to the Department. Another agency's servicer planned to implement a new system in April 1999.

We believe that the implementation of a new system in 1999 is a risk factor that may negatively impact a GA's Y2K readiness. Whenever an entity anticipates a change in a system or a contractor providing a data service of some kind, Y2K compliance issues must be a consideration. Irrespective of how thorough or successful Y2K readiness preparations are, new systems or servicers may negatively impact the organization's readiness. The implementation of a new system by GAs in 1999 is a risk factor that the Department should be aware of and actively monitor.

SUGGESTED ACTIONS

We suggest the COO direct GLOS to:

8. Identify and monitor GAs that are changing data service providers or acquiring significant new systems in 1999. The GAs should describe their strategies for ensuring that new systems are adequately tested for Y2K compliance.

APPENDIX

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