

## RISK MANAGEMENT

The State is involved in legal proceedings, which normally occur in government operations. Such proceedings, in the opinion of the Attorney General, are not likely to have a material adverse impact on the financial position of the State's funds.

The State self-insures toward most claims of risk of loss, including general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. All funds, agencies and authorities of the State participate in the self-insurance programs. As of June 30, 1999, the State has recorded \$206,941,000 in liabilities associated with its self-insurance programs.

Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks.

## YEAR 2000 COMPLIANCE

Certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing the date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures or miscalculations and is generally referred to as the "Year 2000" problem. The State has established a process to assure Year 2000 compliance of all hardware, software, and ancillary equipment that is date dependent. In August 1997, the State established the Year 2000 Program Management Office to manage the State's Year 2000 processes and oversee the activities underway at the agencies. The State's Year 2000 process involves four phases: awareness, assessment, remediation and validation/testing. A critical part of the State's Year 2000 plan is the development of contingency plans to assure continued operation in the event of critical automated systems failure or unforeseen supply chain interruptions.

While the State has allocated significant resources to the Year 2000 issue and expects to resolve all of its Year 2000 problems prior to December 31, 1999, there can be no assurance that all systems will be ready or that failure of systems not identified as critical could have significant negative effect on the State's operations. Also, minor problems will undoubtedly remain after December 31, 1999. The State does not expect Year 2000 problems to have a material adverse effect on its financial health or its ability to meet its financial obligations in a timely manner. However, the State has no control over the Year 2000 remediation efforts of external third parties, and, to the extent that the third parties have not resolved their Year 2000 problems, they may negatively impact the State.

The Required Supplementary Information Section of the financial statements contains more detailed information. However, since this information is not auditable, and the effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter, the AICPA has issued guidance for accounting firms with respect to this issue, and the opinion letter submitted by Arthur Andersen LLP includes the suggested references.

## OTHER INFORMATION

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of the Treasury's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. Although certain of those reports include presentations of detailed financial data and contain expressions of opinion thereon, the audits are usually not made for that purpose. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's general purpose financial statements by a firm of independent public accountants selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Arthur Andersen LLP has been included in the financial section of this report. In addition, Arthur Andersen LLP performs audits to meet the requirements of the federal Single Audit Act of 1984 and the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations"; such information being contained in other reports.