

AUDITOR OF STATE BULLETIN 99-009
MAY 19, 1999

TO: ALL COUNTY AUDITORS
ALL CITY AUDITORS, FINANCE DIRECTORS & TREASURERS
ALL VILLAGE FISCAL OFFICERS
ALL SCHOOL DISTRICT TREASURERS
ALL EDUCATIONAL SERVICE CENTER TREASURERS
ALL PUBLIC EMPLOYEE RETIREMENT SYSTEM FISCAL OFFICERS
ALL PUBLIC UNIVERSITY FISCAL OFFICERS
ALL COMMUNITY COLLEGE TREASURERS
ALL TECHNICAL COLLEGE DISTRICT TREASURERS
ALL TOWNSHIP CLERKS
ALL LIBRARY CLERKS/TREASURERS
ALL JOINT FIRE DISTRICT FISCAL OFFICERS
ALL JOINT RECREATION DISTRICT FISCAL OFFICERS
ALL JOINT ADAMH FISCAL OFFICERS
ALL JOINT AMBULANCE DISTRICT FISCAL OFFICERS
ALL JOINT AMBULANCE AND FIRE DISTRICT FISCAL OFFICERS
ALL UNION CEMETERY DISTRICT FISCAL OFFICERS
ALL DRAINAGE IMPROVEMENT DISTRICT FISCAL OFFICERS
ALL JOINT EMERGENCY MEDICAL DISTRICT FISCAL OFFICERS
ALL TOWNSHIP POLICE DISTRICT FISCAL OFFICERS
ALL TOWNSHIP FIRE DISTRICT FISCAL OFFICERS
ALL TRANSIT AUTHORITY FISCAL OFFICERS
ALL PORT AUTHORITY FISCAL OFFICERS
ALL METROPOLITAN HOUSING AUTHORITY FISCAL OFFICERS
ALL AIRPORT AUTHORITY FISCAL OFFICERS
ALL HOSPITAL FISCAL OFFICERS
ALL TOWNSHIP ROAD DISTRICT FISCAL OFFICERS
ALL WATER AND SEWER DISTRICT FISCAL OFFICERS
ALL TOWNSHIP WASTE DISPOSAL DISTRICT FISCAL OFFICERS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) TECHNICAL BULLETIN No. 99-1 (GTB 99-1): *DISCLOSURES ABOUT YEAR 2000 ISSUES – AN AMENDMENT OF TECHNICAL BULLETIN 98-1*

NOTE:

On November 16, 1998, the Auditor of State (AOS) issued AOS Bulletin 98-010, regarding Year 2000 issue reporting required by GTB 98-1.

GTB 99-1 requires *no* changes to the documentation and reporting described in AOS 98-010, regarding the Year 2000 issue. Entities following documentation and reporting examples in AOS 98-010 will fully comply with GTB 99-1.

SUMMARY OF GTB 99-1

GTB 99-1 amends GTB 98-1 in three respects:

1. GTB 99-1 clarifies that governmental financial statement footnotes need not assert a government will be year 2000 compliant regarding computer systems and other electronic equipment.

☛ *The example disclosures presented in AOS 98-010, Appendix A, do not include such assertions and therefore already meet this requirement.*

2. Entities need no longer disclose the remaining stages of work (i.e., awareness, assessment, remediation and validation/testing) necessary for making computer systems and other electronic equipment compliant.

☛ *The example disclosures in AOS 98-010 describe the stages remaining to be completed, where some stage(s) are still incomplete. This disclosure exceeds GTB 99-1 requirements, but is an auditable assertion, and does not violate GTB 99-1.*

3. An entity may choose to present GTB 98-1 disclosures either in notes to the financial statement or as “Required Supplementary Information” (RSI).

☛ *The example disclosures presented in AOS 98-010, Appendix A, are shown as footnotes and therefore already meet this requirement.*

In now permitting governments to present Year 2000 issue disclosures as RSI, the GASB hopes to reduce the number of opinion qualifications auditors issue, since some auditors believe the GTB 98-1 disclosure is not auditable. Since RSI is presented outside the basic financial statements, the auditor’s responsibility for this information is less than for information disclosed as footnotes within the basic financial statements.

The AOS believes GTB 98-1 disclosures *are* auditable, and strongly prefers that entities present Year 2000 issue disclosures in the footnotes. However, we will accept financial statements that disclose this information as RSI. Governments should be aware that they are receiving a lower level of assurance from their auditor when the disclosure is included as unaudited RSI.

AUDITORS' RESPONSIBILITIES FOR RSI

Policy for AOS Staff

AOS staff will not modify procedures relating to Year 2000 disclosures, regardless of the location of the disclosure. AOS staff will continue to audit all Year 2000 disclosures following AOS Bulletin 98-010 and Audit Division Advisory Memo 98-21 (including the AOS *Year 2000 Analysis Program & Disclosure Checklist* (the Checklist)).

In summary, AOS policy will be similar to the *Client-Prepared Documents* auditing and reporting described below, except:

1. Our procedures will be based on guidance described immediately above instead of AU 551.
2. Our opinion would be affected by the four exceptions described below under *Auditors' Opinions On RSI Presented In Client-Prepared Documents*.
3. Our opinions would also require an emphasis of a matter or going concern paragraph if the conditions described in Part Four of the *Checklist* required such modification.

Remember that any Y2K opinion modifications require consultation with your Accounting & Auditing Support Representative.

Auditors' responsibilities for RSI are described in Statements on Auditing Standards Nos. 29 and 52 (AU 551 & 558). An auditor's responsibility for RSI varies depending upon whether the financial statements are deemed to be (1) client-prepared or (2) auditor-submitted documents.¹

Client-Prepared Documents

Steps 1 – 4 below apply to RSI included in *client-prepared* documents. The auditor should:

1. Inquire of management about the methods of preparing the information.
2. Compare the information for consistency with (a) management's responses to the inquiry in step 1; (b) the financial statements; and (c) other information acquired during the audit.
3. Consider whether representations on RSI should be included in management's representation letter.
4. Make additional inquiries if the foregoing procedures cause the auditor to believe that the information may not be measured or presented within applicable guidelines.

¹ Compilations prepared by the AOS' Local Government Services Division are auditor submitted when the AOS is the auditor (though AOS staff will follow the "Policy for AOS Staff" described above. When an independent public accountant (IPA) firm **both** compiles and audits the same statements, we suggest the statements be deemed auditor submitted. AOS general policy is to consider reports issued with covers featuring the auditor's logo or firm name to be auditor submitted. Except as described in the first two sentences, the AOS deems reports issued with a client-prepared cover (such as many CAFRs) as client prepared.

Auditors' Opinions On RSI Presented In Client-Prepared Documents

Per AU 558.08, unless engaged to report on the RSI, auditors need not modify their opinions for RSI (unlike auditor-submitted documents described below), *except in any* of the following circumstances:

1. The RSI is omitted.
2. The auditor has concluded that the measurement or presentation of the RSI departs materially from prescribed guidelines.²
3. The auditor is unable to complete the procedures described above.
4. The auditor has substantial doubt about whether the supplementary information conforms to prescribed guidelines.²

Auditor-submitted documents

Per AU 558.05, auditor-submitted documents are not covered by AU 558. Instead, auditors should follow AU 551.15, which requires a disclaimer on the RSI, unless the auditor has been engaged to opine on it.

LOCATION OF RSI

RSI preferably should follow the footnotes, and precede combining and combined statements and schedules in CAFRs. Other locations may be acceptable, except it should not appear within the basic/general purpose statements and footnotes. If the information is included within the statements and notes, it should be marked unaudited. If not marked as unaudited, the auditor's opinion should disclaim on the information. It should be labeled as RSI, and we suggest it be separately referenced in the table of contents, to distinguish it from the basic or general purpose statements.

OTHER AUDITOR RESPONSIBILITIES

Regardless of the location of Year 2000 disclosures, an auditor still is responsible for going concern assessments, and for considering the effect of unresolved contingencies and other similar judgmental matters, regardless of their cause. Therefore, a probable inability of a government to perform mission critical functions after December 31, 1999 may affect the auditor's opinion.

EFFECTIVE DATE OF GTB 99-1

GTB 99-1 is effective immediately, and may be applied retroactively for financial statements with audit opinions dated after October 31, 1998. The provisions terminate for financial statement periods ending after

² The AICPA issued a document including opinion examples when year 2000 information is disclosed as RSI, called "AICPA Guidance on Year 2000 Disclosures Made Pursuant to GASB TB 99-1." This document is dated March 29, 1999. This document is available on the Internet, under AICPA.org.

December 31, 1999, unless mission-critical systems and other equipment are not operating because of the year 2000 issue as of the balance sheet date.

☛ *Retroactive application will not be required for entities that received unqualified opinions and properly followed AOS Bulletin 98-010.*

Entities that received qualified opinions on GTB 98-1 disclosures may choose to reissue their reports with the GTB 98-1/99-1 information disclosed as RSI. This option may be useful where a government requires an unqualified opinion. (Note that the GFOA has informed us that they will not disqualify a CAFR for an opinion qualification related to Year 2000 disclosures unless the qualification related to missing or inadequate disclosures.) Governments considering reissuing reports should discuss the matter with their IPA. Any reports reissued must be submitted to the Auditor of State for re-release.