

**Appendix VI**  
**Other OMB Circular A-133 Advisories**

	<b>Page</b>
<b>Advisory to Federal Grantees on Responsibility to Address the Year 2000 Issue . . . . .</b>	<b>8-6-1</b>
<b>Impact of Y2K on Audits of Federal Awards Under OMB Circular A-133 . . . . .</b>	<b>8-6-5</b>

August 19, 1998

## MEMORANDUM TO THE PRESIDENT'S MANAGEMENT COUNCIL

FROM: G. Edward DeSeve  
Deputy Director for Management, Acting

SUBJECT: Advisory to Federal Grantees on Responsibility to Address the Year 2000 Issue

The year 2000 (Y2K) issue has received a great deal of attention for some time now. Federal agencies are working hard to ensure internal systems and those of organizations with which they exchange data are Y2K compliant. This effort should include ensuring that Federal grantees and subgrantees are aware that systems that are not Y2K compliant may affect their ability to account for Federally funded programs in accordance with Federal requirements.

Governmentwide requirements contained in the OMB Circular A-102 Common Rule, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" and OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Non-Profit Organizations" require that grantee and subgrantee financial management systems be capable of providing specific information about Federal programs. In addition, program laws and regulations may require additional information which grantee and subgrantee systems must be capable of providing. If grantee and subgrantee systems are not Y2K compliant, they may not be capable of meeting these governmentwide and program specific requirements.

Federal grantor agencies should advise grantees of their responsibility to establish and maintain systems that meet governmentwide and program specific requirements and that systems which are not Y2K compliant may not be able to satisfy these requirements. Further, Federal grantor agencies should encourage grantees to inquire of grantor agencies about the use of grant funds to correct Y2K problems. Grantees should also be advised of their responsibility to inform their subgrantees of these requirements and about the use of grant funds to address Y2K problems.

To assist Federal agencies in advising grantees, attached you will find an advisory that all grant-making agencies should use. This will ensure uniformity and minimize confusion in instances when grantees receive an advisory from multiple Federal agencies. Each agency should provide a contact person for questions from grantees.

Should you or your staff have any questions, please contact Jimmy Charney in the Office of Federal Financial Management, at (202) 395-3993.

## ADVISORY TO GRANTEES AND SUBGRANTEES

FROM: [Grants policy officer]

SUBJECT: Non Year 2000 Compliant Computer Systems May Not Meet Federal Grant Requirements

The Year 2000 Issue

The Year 2000 (Y2K) Issue concerns the ability of data processing systems to process year-date dependent data accurately beyond the year 1999. It is a broad operational problem, as well as an accounting systems problem. Systems that are not Y2K compliant may not be able to continue to process information in accordance with Federal management and program specific requirements. The inability to process information in accordance with Federal requirements could result in a requirement to return funds that have not been accounted for properly.

Federal Grants Management and Program Specific Requirements

Federal grants management requirements are contained in the OMB Circular A-102 Common Rule, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" and OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Non-Profit Organizations." These regulations require that grantee and subgrantee financial management systems be capable of providing certain information, including: (1) accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the prescribed reporting requirements; (2) the source and application of funds for federally-sponsored activities; and (3) the comparison of outlays with budgeted amounts for each award.

In addition, implementing statutes and regulations for certain Federal programs may require that systems make certain calculations or provide specified data, which may not be possible if systems are not Y2K compliant. For example, programs that provide assistance to individuals may have time limits. Such systems must be able to calculate the passage of time accurately to ensure assistance payments do not exceed prescribed limits. Loan programs may require that interest be calculated on outstanding balances over time. Accordingly, loan systems must be capable of calculating interest payments over the period covered by loan agreements.

Grantee/Subgrantee Actions

Grantees and subgrantees should identify systems critical to the management of Federal programs (mission-critical systems) and assess whether these systems are Y2K compliant. For those systems that are not Y2K compliant, grantees and subgrantees should take immediate action to remediate the Y2K problem and validate the success of the remediation effort. Since grantee and subgrantee data processing may be performed by outside entities or be dependent upon data received from outside entities, the assessment should include inquiries of these organizations about their Y2K assessment, system remediation, and testing efforts. The timetable for completing this process should ensure that properly functioning mission-critical systems are in operation before existing systems will cease performing mission-critical functions.

Grantees should advise Federal grantor agencies if the assessment discloses significant Y2K problems or if the grantee cannot complete the remediation and testing phases before systems cease performing properly. Similarly, subgrantees should advise grantees of significant Y2K problems or an inability to complete systems testing and validation before systems cease operating properly. This will assist Federal agencies, grantees, and subgrantees with contingency planning. [*Grantees should contact their Federal grantor agency about the use of Federal grant funds to address Y2K problems*] or [*Attached to this advisory is guidance about the use of grant funds to address Y2K problems.*]

#### Questions about this advisory

Grantees should direct questions about this advisory to the [*Federal awarding agency designated contact*]. Subgrantees should direct questions to the non-federal organization providing them with the most Federal funding.

#### Additional Y2K Resources

The General Services Administration's Office of Information Technology maintains an Internet site (<http://www.itpolicy.gsa.gov>) which includes valuable information about addressing the concerns discussed in this advisory. Check under the heading "Year 2000 Directories."

August 30, 1999

## MEMORANDUM FOR INSPECTORS GENERAL AND CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Sheila O. Conley  
Acting Deputy Controller

SUBJECT: Impact of Y2K on Audits of Federal Awards Under OMB Circular A-133

**Purpose**

The Year 2000 (Y2K) issue relates to the ability of data processing systems to process year-date dependent data accurately beyond the year 1999. Systems that are not Y2K compliant may affect the ability of grantees to administer Federally-funded programs in accordance with Federal requirements.

The purpose of this memorandum is to:

- address the impact of opinion qualifications resulting from Y2K disclosures required by Technical Bulletin (TB) 98-1, *Disclosures About Year 2000 Issues*, issued by the Governmental Accounting Standards Board (GASB);
- describe the procedures to be followed if an auditee elects to submit revised financial statements to the Federal Government resulting from GASB TB 99-1, *Disclosures About Year 2000 Issues—An Amendment of Technical Bulletin 98-1*; and
- provide guidance about an auditor's responsibility to consider the Y2K issue when conducting audits in accordance with the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This memorandum should be provided to officials in your organization responsible for grants management and implementation of OMB Circular A-133.

**Summary**

OMB has determined that an opinion qualification resulting solely from Y2K disclosures, or the omission of such disclosures, required by GASB TB 98-1 would not preclude an entity from qualifying as a low-risk auditee under OMB Circular A-133. If an entity chooses to revise its financial statements as a result of GASB TB 99-1, and elects to submit its revised financial statements to the Federal Government, the entity should follow the procedures presented in the Attachment. Also, as with any other issue affecting an auditee's ability to comply with Federal program requirements, auditors must consider the effect of the Y2K issue when conducting OMB Circular A-133 audits, including applying the risk-based approach to selecting major Federal

programs to audit. However, the auditor is not expected to plan and perform procedures to determine whether an auditee is Y2K compliant.

### **Impact of GASB Technical Bulletin 98-1 on Single Audits**

In October 1998, GASB issued TB 98-1, which is effective for financial statements on which the auditor's report is dated after October 31, 1998. GASB TB-98-1 requires State and local governments to include in the notes to the financial statements certain disclosures relating to the Y2K issue including:

- significant amounts of resources committed to Y2K compliance;
- a general description of how the organization is affected by the Y2K issue; and
- information about the entity's stage of readiness.

On October 22, 1998, the American Institute of Certified Public Accountants (AICPA) expressed concern that the required Y2K disclosures are neither assertable by management nor verifiable by auditors. The AICPA advised auditors to be very cautious about being associated with the disclosures. Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, sufficient audit evidence may not exist to support the required Y2K disclosures. As a result, many audit reports issued after October 31, 1998, are qualified due to either:

- a scope limitation resulting from the auditor's inability to obtain sufficient audit evidence relating to the Y2K note disclosures; or
- the omission of the Y2K note disclosures required by GASB TB 98-1. (Omitted Y2K disclosures could result in an adverse opinion.)

OMB has received numerous inquiries about the impact of qualified and adverse opinions relating to Y2K disclosures on an auditee's ability to qualify as a low-risk auditee under OMB Circular A-133. OMB Circular A-133 permits entities to qualify as low-risk auditees and be eligible for reduced audit coverage if certain conditions are met. One condition is that the auditor's opinion on the entity's financial statements for each of the preceding two years is unqualified, unless the Federal cognizant or oversight agency for audit provides a waiver to this criterion.

OMB has concluded that a qualified or adverse opinion *resulting solely from either:*

- a scope limitation with respect to the Y2K note disclosures required by GASB TB 98-1, or
- an omission of the Y2K note disclosures required by GASB TB 98-1

would not preclude an entity from qualifying as a low-risk auditee under paragraph \_\_\_\_.530 of OMB Circular A-133. Accordingly, auditees with qualified or adverse opinions resulting solely

from the limited circumstances described in the preceding sentence do not need to request separate waivers from their Federal cognizant or oversight agencies for audit. However, for opinion modifications or disclaimers of opinion for any other reason, auditees must obtain waivers from their Federal cognizant or oversight agencies for audit to be considered a low-risk auditee under paragraph \_\_\_\_530 of OMB Circular A-133.

### **Procedures for Submitting Revised Financial Statements**

On March 29, 1999, GASB issued TB 99-1, *Disclosures About Year 2000 Issues—An Amendment of Technical Bulletin 98-1*. The revision modifies the Y2K disclosures and allows such disclosures to be presented either in the notes to the financial statements or as required supplementary information (RSI). While the auditor is required to perform certain procedures on RSI, reporting on such information (including an omission of RSI) *does not affect the auditor's opinion* on the basic financial statements (see Auditing Sections 551, "Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents," and 558, "Required Supplementary Information," of the AICPA's *Codification of Statements on Auditing Standards*). GASB TB 99-1 became effective upon issuance on March 29, 1999, and retroactive application is allowed. As a result of permitting retroactive implementation, some auditees may choose to revise their 1998 financial statements and have their auditors reissue the related auditor's reports.

Auditees are not required to submit financial statements that are revised based on GASB TB 99-1 to the Federal Government, unless specifically requested by a Federal awarding agency. Under these circumstances, the revised financial statements need only be sent to the requesting agency and are not required to be sent to the Federal Audit Clearinghouse as provided in the Attachment. However, if an auditee elects to submit revised financial statements to the Federal Government, the procedures described in the Attachment should be followed.

### **Auditor Consideration of the Y2K Issue Under Single Audit**

As with any other issue affecting an auditee's ability to comply with requirements related to Federal awards, auditors must consider the effect of the Y2K issue when conducting audits in accordance with OMB Circular A-133, including applying the risk-based approach to selecting major programs (paragraph \_\_\_\_520 of OMB Circular A-133). However, the auditor is not expected to plan and perform procedures to determine whether an auditee is Y2K compliant or has made specified progress towards becoming Y2K compliant.

When applying the risk-based approach to selecting major programs, paragraph \_\_\_\_520(c)(1) of OMB Circular A-133 states that "The auditor shall consider . . . whether any changes in personnel or systems affecting a Type A program have significantly increased risk . . ." The Y2K issue poses a greater risk for Federal awards that rely heavily on data processing systems to administer such awards. Auditors should specifically assess the risk associated with Y2K for large Federal programs (i.e., Type A programs) and document this assessment as part of the risk-based approach.

Auditors should be aware, and consider as part of the major program risk assessment process, that the Y2K issue may affect the administration of Federal awards *prior to the year 2000* for

certain programs. For example, programs that provide assistance to individuals may have time limits on eligibility. Such systems must be able to calculate the passage of time accurately to ensure that assistance payments do not exceed prescribed limits. Also, loan programs may require that interest be calculated on outstanding balances over time. Accordingly, loan systems must be capable of calculating interest payments over the period covered by loan agreements.

### **Additional Information**

Questions regarding this memorandum should be directed to an auditee's Federal cognizant or oversight agency for audit. (See paragraph \_\_\_\_400 of OMB Circular A-133 for guidance on determining Federal cognizant or oversight agencies for audit.)

Websites that contain useful information include:

- <http://www.whitehouse.gov/OMB>
- <http://www.gasb.org>
- <http://www.aicpa.org>

**Procedures for Submitting an Amended Reporting Package  
Due to Y2K Disclosures<sup>1</sup>**

1. **Prepare amended reporting package.** The amended reporting package should *only* include the *revised* financial statements and *reissued* auditor's report on the revised financial statements.
2. **Mark contents of amended reporting package:** "REVISED DUE TO Y2K DISCLOSURES"
3. **Prepare a transmittal letter.** The transmittal letter should accompany the amended reporting package, in lieu of preparing a revised data collection form, and include the following:
  - A description of the nature of the revision and its impact.<sup>1</sup>
  - Name, title, and signature of certifying official (representing the auditee).
  - Auditee's employer identification number (EIN).
4. **Submit *one copy* of the amended reporting package and transmittal letter to the Federal Audit Clearinghouse.<sup>3</sup>** Amended reporting packages, along with accompanying transmittal letters, should be addressed as follows:

Revised Report--Y2K Disclosure  
Federal Audit Clearinghouse  
Bureau of the Census  
1201 E. 10<sup>th</sup> Street  
Jeffersonville, IN 47132
5. **A subrecipient should determine whether an amended reporting package should be submitted to its pass-through entities.** Subrecipients required to submit a reporting package to pass-through entities under paragraph \_\_\_\_320(e) of OMB Circular A-133 should also submit an amended reporting package to those same pass-through entities, unless otherwise informed by such pass-through entities.

---

<sup>1</sup>These procedures apply *only* to situations in which an auditee chooses to revise its financial statements pursuant to Technical Bulletin (TB) 99-1, *Disclosures About Year 2000 Issues--An Amendment of Technical Bulletin 98-1*, issued by the Governmental Accounting Standards Board (GASB). Auditees are not required to submit financial statements that have been revised based on GASB TB 99-1 to the Federal Government, unless specifically requested by a Federal awarding agency. However, if an auditee elects to submit revised financial statements to the Federal Government, the auditee should follow the procedures presented in this Attachment.

<sup>2</sup>For example, "As permitted by GASB TB 99-1, ABC Government revised its financial statements as of and for the period ended June 30, 1998. Required disclosures about the Year 2000 are presented as required supplementary information in the revised financial statements, whereas such disclosures were previously presented in the notes to the

financial statements. As a result, the auditor's report on the revised financial statements is unqualified, whereas a qualified opinion was rendered on the previously-issued financial statements."

<sup>3</sup>It is not necessary to submit to the Clearinghouse additional report copies for Federal awarding agencies. The Clearinghouse will retain one archival copy of the amended OMB Circular A-133 reporting package and transmittal letter. However, if specifically requested by a Federal awarding agency, an auditee should provide additional copies directly to the Federal agency.