

November 1998

TO: Chief Executive Officers and Chief Fiscal Officers of Counties, Cities, Towns, Villages and Fire Districts
Superintendents and Business Officials of School Districts and BOCES

FROM: NYS Office of the State Comptroller, Division of Municipal Affairs

SUBJECT: The Year 2000 (Y2K) Issue and Disclosure Requirements

Please give copies of this bulletin to others who need this information. Bulletins are on OSC's web page (www.osc.state.ny.us). If you have questions, please call my office at (518) 474-6023.

Summary

This bulletin continues OSC's efforts to keep you aware of developments related to the Y2K issue.

The Y2K issue is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Many programs (if not corrected) will not be able to distinguish between the year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Problems affecting a wide range of governmental activities will likely result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. These problems have the potential for causing a disruption of government services. You must be aware of:

- ❖ **The need to do a Y2K risk assessment that at a minimum includes: hardware/mainframe, mini and personal computers, software that includes mainframe programs and PC based software applications and embedded chip technology.** In March, the New York State Office For Technology (OFT) sent each local government a publication "Guide to Solving Year 2000 Problems in NYS Local Government" (<http://www.irm.state.ny.us/yr2000/localgov.htm>) which you should be using in your risk assessment. Your Y2K Project Manager should be in contact with OFT at (518) 473-5622.
- ❖ **The need for a contingency plan.** Despite your best efforts to address Y2K problems, things may go wrong. You need to have a contingency plan that addresses what you can and will do in the event a process or supplier fails. These contingency plans are similar to disaster recovery plans. You should be prepared to implement your plan as soon as possible. **Problems may arise before December 31, 1999.** If your risk assessment and Y2K work plan identify critical systems that you know will not be Y2K compliant before December 31, 1999, you need to identify and develop business continuation alternatives.

- ❖ **The Securities and Exchange Commission (SEC) directive** effective August 4, 1998 (<http://www.sec.gov/rules/concept/33-7558.htm>) to municipal securities issuers and persons participating in the preparation of disclosure documents. Municipal securities issuers, like other organizations, have Y2K issues that may affect their operations, creditworthiness, and ability to make timely payment on their indebtedness. **If Y2K issues are material, the disclosure documents should contain a discussion of Y2K issues to avoid misleading statements or omissions that could violate the anti-fraud provisions of the federal securities laws.**
- ❖ **The new footnote disclosure required** by the Governmental Accounting Standards Board (GASB) Technical Bulletin No. 98-1. The Y2K footnote must be in audited financial statements on which the auditor's report is dated after October 31, 1998. For those units issuing unaudited statements, the Y2K note should be in all statements issued after October 31, 1998. (For example, your June 30, 1998 annual financial report must have the note, if it's filed with OSC after October 31.) Unless systems and other equipment are not Y2K compliant as of the balance sheet date, a Y2K note won't be required for financial statements for fiscal years ending January 31, 2000 or later. The Technical Bulletin may be obtained from GASB's order department, 401 Merritt 7, Box 5116, Norwalk, CN 06856-5116, Telephone (203) 847-0700, or on GASB's web site (www.gasb.org). The GASB does not provide model note disclosures. You can modify the following note drafted by OSC based on your individual risk assessment and situation.

MODEL FOOTNOTE AND COMMENTARY

Please note: This example must be changed to reflect your individual risk assessment and situation.

PARAGRAPH 1

You need to disclose a general description of the Y2K issue as it relates to your organization.

For a Simple or Complex Situation

The Year 2000 (Y2K) Issue

The Governmental Accounting Standards Board requires state and local governments to disclose information about the effect of the Y2K issue. The Y2K issue is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. Problems affecting a wide range of governmental activities could result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. These problems have the potential for causing a disruption of government services and an increased demand for government services. The Y2K issue is a world-wide issue that affects governments and the private sector whose operations are interdependent in many situations. While this makes predictions troublesome, the Y2K issue is not expected to cause significant disruption of services.

PARAGRAPH 2

GASB's TB states that you "...should disclose any significant amount of resources committed—contracted amounts at the end of the government's reporting period—to make computer systems and other electronic equipment year 2000-compliant.

Please note that GASB does not define significant. You should judge whether outstanding commitments for Y2K work are material to the financial statements. These commitments are for contracted work. If work is being done in-house no disclosure is needed.

For a Simple Situation

(No disclosure is needed since there isn't a significant commitment of resources.)

For a Complex Situation

At year end, there are \$_____ of contracted amounts committed for Y2K compliance changes.

PARAGRAPH 3

You need to disclose information about the status of your work on systems and other equipment that are "critical to operations". **GASB doesn't define this.** Based on your risk assessment, you need to decide if systems and equipment are "critical to operations."

The Technical Bulletin states that: "The year 2000 problem affects many of the computer systems and other electronic equipment necessary for the continued and uninterrupted operations of a government. The effects of the year 2000 problem extend beyond systems that produce financial information. It encompasses all computer systems and any equipment that is dependent on microchip technology. This includes computer systems and other equipment that are a part of the entity's operational activities. This disclosure should include a description of the stages of work in process or completed as of the end of the government's reporting period to make computer systems and other electronic equipment critical to conducting operations year 2000-compliant. The additional stages of work necessary for making computer systems and other electronic equipment year 2000-compliant should also be disclosed. If computer systems and other electronic equipment critical to operations are in the same stage of work, the description of these systems and equipment may be combined for this disclosure. The following stages have been identified as necessary to implement a year 2000-compliant system:

- 1) Awareness Stage--Encompasses establishing a budget and project plan (for example, a time line or chart noting major tasks and due dates).
- 2) Assessment Stage—When the organization begins the actual process of identifying all of its systems (preparing an inventory) and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission-critical systems and equipment—systems and equipment critical to conducting operations—to check for compliance.
- 3) Remediation Stage—When the organization actually make changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000-compliant, and the required system changes are made.
- 4) Validation/Testing Stage—When the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

For a Simple Situation

Our risk assessment identified fifteen computer systems and other electronic systems critical to operations and that they are believed to be Y2K compliant.

For a Complex Situation

Our risk assessment identified fifteen computer systems and other electronic systems critical to operations of which five need to be made Y2K compliant. All systems and equipment are expected to be Y2K compliant by December 31, 1999. The status of work, on systems that need to be made Y2K compliant, is summarized below, as of the balance sheet date:

<u>System/Equipment</u>	<u>Stage of Implementation (completed*/projected**)</u>			
	<u>Awareness</u>	<u>Assessment</u>	<u>Remediation</u>	<u>Validation</u>
911 Communication System	10/98*	11/98*	11/98-8/99**	8/99-10/99**
Nursing Home Medical Equipment	10/98*	11/98*	11/98-9/99**	9/99-10/99**
Heating, Ventilating & Air Conditioning	10/98*	11/98*	12/98-7/99**	8/99-10/99**
General Accounting System	6/98*	6/98*	6/98-12/98*	1/99-3/99**
Payroll System	6/98*	6/98*	6/98-12/98*	1/99-3/99**

(This chart is an illustration. Other approaches can be used to disclose the status of work.)

PARAGRAPH 4

You should disclose that you have Y2K contingency plans.

Simple Situation

While the Y2K issue is not expected to cause significant disruption of operations, contingency plans have been developed for possible disruption of services and increased demand for services.

Complex Situation

While the Y2K issue is not expected to cause significant disruption of operations, contingency plans have been developed for possible disruption of services and increased demand for services. For the systems noted above that need to be made Y2K compliant, contingency plans have been made since there is no guarantee that all systems will be Y2K compliant by December 31, 1999.

-End of Model Note-

-End of Bulletin-