



Testimony before the General Law Committee

Written Testimony of Adam P. Cohen, CPA

In Support of Senate Bill No. 780
An Act Concerning the Solicitation of Charitable Funds Act

Respectfully Submitted to the General Law Committee
February 13, 2009

Senator Colapietro, Representative Shapiro, and members of the General Law Committee, my name is Adam Cohen. I am a CPA practicing in West Hartford. I appreciate the opportunity to submit testimony to the General Law Committee in favor of Senate Bill 780, *An Act Concerning the Solicitation of Charitable Funds Act*.

I have served or advised hundreds of not-for-profit organizations in my professional practice and as a volunteer over the past 30 years. In my current practice I concentrate on serving not-for-profit organizations. I serve on the Conn. Society of CPAs' not-for-profit committee and the American Institute of CPAs' National Not-for-Profit Conference Planning Committee.

Last January, after a year's discussion, I proposed to the CSCPA's Not-for-Profit Organizations Committee that we recommend raising the threshold for requiring small not-for-profits. This fall we brought together the organizations represented today and others to develop a consensus. I am gratified that the Public Charities Unit, Attorney General and Commissioner of Consumer Protection embraced our suggestion and proposed the legislation your committee is considering.

Preface:

This change will not affect audits now required under the Connecticut Single Audit Act or the federal single audit act. Organizations expending \$100,000 or more in state funds during their respective fiscal years will still be required to provide audited financial statements and the CPAs' "Single Audit" reports on compliance. Most organizations under \$500,000 in gross receipts, however, do not receive more than \$100,000 in state awards. While it may be cost-beneficial to the State budget to also raise the Single Audit Act audit threshold, this legislation does not change the Single Audit requirement.

Any third-party including a grantor, contributor, federated fundraising organization or lender may still require audited financial statements.

History, Increased Complexity and Raised Expectations

CPAs follow "Generally accepted auditing standards" (GAAS), which have developed over many years, going back to 1939. GAAS was much simpler when the public charities statute was enacted in 1986. AICPA had 49 *Statements of Auditing Standards* (SAS). In the succeeding years the profession has issued additional standards so we are now up to SAS No.116.

The accounting profession and Congress have reacted to well-publicized situations, mostly in the public securities markets. Congress passed the Sarbanes-Oxley Act of 2002 and created the PCAOB – the Public Company Accounting Oversight Board. [Sarbanes-Oxley does not apply to not-for-profit organizations (except for the two provisions on document retention and whistleblower protection).] The PCAOB and expectations raised by SOX, however, have driven auditing standards for even nonpublic entities since 2002.



Cost-Benefit Assessment

Auditing standards require procedures and documentation that are excessive for small organizations that have very basic operations and systems.

The same auditing standards apply to small not-for-profits and to large entities. The cost to audit a small entity, although lower in dollars, is not reduced proportionately to its size.

On its 2007 Form 990 the American National Red Cross disclosed it paid one quarter of one percent of its revenues for audit fees. One small Connecticut not-for-profit paid \$9,000, or 3% of its gross revenues of \$300,000.

A foundation audit client has principally one asset, cash; it receives contributions from its sponsor, vendors and customers, and a golf tournament. The foundation makes grants to about 20 organizations. The Foundation's financial statements total 8 pages, including the table of contents and my opinion. The audit checklists total over 100 pages.

Small organizations may elect to prepare financial statements, but select the level of service and CPA services most appropriate for them, in lieu of an audit required by statute.

Transparency is now a guiding principle for not-for-profits.

In 1986, the Internet was not common and the Public Charities Unit served as a valuable repository for Forms 990 and financial statements. For the past ten years Guidestar.org, has posted nearly all charities' Forms 990 and additional financial information for many of them. Many organizations post financial information or Forms 990 on their websites.

Beginning with 2008, a newly revamped annual IRS Form 990, requests important information about not-for-profits' governance, policies and activities, including questions about state law compliance. One question asks, "Describe whether and how the organization makes its governing documents, conflict of interest policy and financial statements available to the public."

The availability of information through other sources and a cost-benefit assessment, however, lead me to recommend the passage of SB 780.

A related bill, HB 6433, *An Act Concerning the Regulation of Charitable Funds*, is not scheduled for a public hearing today. I concur with the sections of that bill including its provisions relating to extensions for registrations and the authority given to the Commissioner of the Department of Consumer Protection and Attorney General to waive an audit.

Thank you again for the opportunity to express my support for SB 780, *An Act Concerning the Solicitation of Charitable Funds Act*. Please feel free to contact me at (860) 521-6400 or at adamcohen@cohen-nfp-cpa.com.