



General Assembly

January Session, 2009

**Raised Bill No. 6591**

LCO No. 3446

\*03446\_\_\_\_\_PD\_\*

Referred to Committee on Planning and Development

Introduced by:  
(PD)

***AN ACT CONCERNING CONNECTICUT STATE SINGLE AUDIT REVISIONS.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 4-230 of the general statutes is repealed and the  
2 following is substituted in lieu thereof (*Effective from passage*):

3 As used in sections 4-230 to 4-236, inclusive, as amended by this act:

4 (1) "Cognizant agency" means a state agency which is assigned by  
5 the secretary the responsibility for implementing the requirements of  
6 sections 4-230 to 4-236, inclusive, as amended by this act;

7 (2) "Secretary" means the Secretary of the Office of Policy and  
8 Management;

9 (3) "State financial assistance" means assistance that a nonstate  
10 entity receives or administers which is provided by a state agency or  
11 pass-through entity in the form of grants, contracts, loans, loan  
12 guarantees, property, cooperative agreements, interest subsidies,  
13 insurance or direct appropriations, but does not include direct state  
14 cash assistance to individuals or payments to a vendor;

15 (4) "State agency" means any department, board, commission,  
16 institution or other agency of the state;

17 (5) "Generally accepted accounting principles" has the meaning  
18 specified in the generally accepted auditing standards issued by the  
19 American Institute of Certified Public Accountants (AICPA);

20 (6) "Generally accepted government auditing standards" (GAGAS)  
21 means the generally accepted government auditing standards issued  
22 by the Comptroller General of the United States that are applicable to  
23 financial audits;

24 (7) "Independent auditor" means a public accountant who is  
25 licensed to practice in the state and meets the independence standards  
26 included in generally accepted government auditing standards;

27 (8) "Internal controls" means a process, effected by an entity's board  
28 of directors, management and other personnel, designed to provide  
29 reasonable assurance regarding the achievement of objectives in: (A)  
30 Reliability of financial reporting, (B) effectiveness and efficiency of  
31 operations and (C) compliance with applicable laws and regulations;

32 (9) "Municipality" means a town, consolidated town and city,  
33 consolidated town and borough, city or borough, including a local  
34 board of education as described in subsection (c) of section 7-392;

35 (10) "Audited agency" means a [fire district, fire and sewer district,  
36 sewer district or other municipal utility] district, as defined in section  
37 7-324, the Metropolitan District of Hartford County, a regional board  
38 of education, a regional planning agency, any other political  
39 subdivision of similar character which is created or any other agency  
40 created or designated by a municipality to act for such municipality  
41 whose [average] annual receipts from all sources exceed [two hundred  
42 thousand] one million dollars or any tourism district established under  
43 section 10-397;

44 (11) "Nonprofit agency" means any organization that is not a for-

45 profit business and provides services contracted for by (A) the state or  
46 (B) a nonstate entity. It also means private institutions of higher  
47 learning which receive state financial assistance;

48 (12) "Major state program" means any program, excluding an  
49 exempt program, [for which total expenditures of state financial  
50 assistance by a nonstate entity during the applicable year exceed the  
51 larger of (A) one hundred thousand dollars or (B) one per cent of the  
52 total amount of state financial assistance expended, excluding  
53 expenditures of an exempt program by the nonstate entity during the  
54 audited year] determined to be a major state program by the auditor  
55 pursuant to the requirements of the risk-based approach, provided  
56 such requirements shall (A) encompass factors consistent with  
57 requirements established by the United State Office of Management  
58 and Budget, and (B) include, but not be limited to, current and prior  
59 audit experience, oversight by state agencies and pass-through entities  
60 and the risk inherent in state programs;

61 (13) "Public accountant" means an individual who meets the  
62 standards included in generally accepted government auditing  
63 standards for personnel performing government audits and the  
64 licensing requirements of the State Board of Accountancy;

65 (14) "Subrecipient" means a nonstate entity that receives state  
66 financial assistance from a pass-through entity, but does not include an  
67 individual who receives such assistance;

68 (15) "Tourism district" means a district established under section 10-  
69 397;

70 (16) "Nonstate entity" means a municipality, tourism district,  
71 audited agency or nonprofit agency;

72 (17) "Pass-through entity" means a nonstate entity that provides  
73 state financial assistance to a subrecipient;

74 (18) "Program-specific audit" means an audit of a single state

75 program conducted in accordance with the regulations adopted under  
76 section 4-236;

77 (19) "Expended" and "expenditures" have the meanings attributed to  
78 those terms in generally accepted accounting principles, except that  
79 (A) state financial assistance received which does not specify a  
80 required use shall be assumed to be fully expended in the fiscal year of  
81 receipt, and (B) exempt programs shall be assumed to be expended in  
82 the fiscal year that the state financial assistance is received;

83 (20) "Exempt program" means any [of the following programs:  
84 Education cost sharing, pursuant to sections 10-262f to 10-262j,  
85 inclusive; public and nonpublic school pupil transportation, pursuant  
86 to sections 10-54, 10-97, 10-266m, 10-273a, 10-277 and 10-281; special  
87 education, excess costs equity and excess costs student-based,  
88 pursuant to subsection (e) of section 10-76d, subsections (a), (b) and (c)  
89 of section 10-76g and section 10-253; school building grants-principal  
90 and interest subsidy, pursuant to chapter 173 and section 10-264h; and  
91 school construction grants pursuant to public act 97-265 and public act  
92 97-11 of the June 18 Special Session\*] state program designated to be  
93 exempt by the secretary after consultation with the Auditors of Public  
94 Accounts and the commissioner of the state agency that awarded the  
95 state financial assistance; [and]

96 (21) "Vendor" means a dealer, distributor, merchant or other seller  
97 providing goods or services that are required for the conduct of a state  
98 program. Such goods or services may be for an organization's own use  
99 or for the use of beneficiaries of the state program;

100 (22) "State single audit compliance supplement" means a document  
101 issued by the secretary that contains information relevant to the audit  
102 process, including, but not limited to, identification of state financial  
103 assistance programs and their significant compliance requirements,  
104 suggested audit procedures for determining compliance, exempt  
105 programs, the risk-based approach for use in determining major state  
106 programs, and other relevant information to assist auditors in

107 conducting state single audits; and

108 (23) "Single audit" means an audit encompassing an entity's  
109 financial statements and state financial assistance, as described in  
110 section 4-235, as amended by this act.

111 Sec. 2. Section 4-231 of the general statutes is repealed and the  
112 following is substituted in lieu thereof (*Effective from passage*):

113 (a) (1) Each nonstate entity which expends a total amount of state  
114 financial assistance equal to or in excess of [one] three hundred  
115 thousand dollars in any fiscal year of such nonstate entity beginning  
116 on or after July 1, [1998] 2009, shall have either a single audit or a  
117 program-specific audit made for such fiscal year, in accordance with  
118 the provisions of subdivision (2) or (3) of this subsection and the  
119 requirements of regulations adopted pursuant to section 4-236. [If a  
120 provision of the general statutes or an administrative rule, regulation,  
121 guideline, standard or policy, which is effective on July 1, 1992,  
122 requires a nonstate entity to conduct a biennial audit, the audit  
123 required under this section shall be conducted on the same biennial  
124 basis and shall cover both years of the biennial period.]

125 (2) If the total amount of state financial assistance expended in any  
126 such fiscal year is for a single program, such nonstate entity may elect  
127 to have a program-specific audit made in lieu of a single audit,  
128 provided a grant agreement or a statutory or regulatory provision  
129 governing the program of state financial assistance does not require a  
130 financial statement audit of such nonstate entity.

131 (3) If the total amount of state financial assistance expended in any  
132 such fiscal year is for more than one program, such entity shall have a  
133 single audit made for such fiscal year.

134 (b) Notwithstanding any provision of the general statutes or any  
135 regulation adopted under any provision of the general statutes, each  
136 nonstate entity that expends total state financial assistance of less than

137 [three] hundred thousand dollars in any fiscal year of such nonstate  
138 entity beginning on or after July 1, [1998] 2009, shall be exempt with  
139 respect to such year from complying with any statutory or regulatory  
140 requirements concerning financial or financial and compliance audits  
141 that would otherwise be applicable.

142 (c) No provision of this section shall be deemed to exempt a  
143 nonstate entity from complying with any statutory or regulatory  
144 provision requiring the entity to (1) maintain records concerning state  
145 financial assistance or (2) provide access to such records to a state  
146 agency.

147 Sec. 3. Section 4-232 of the general statutes is repealed and the  
148 following is substituted in lieu thereof (*Effective from passage*):

149 (a) Each nonstate entity which is required to be audited pursuant to  
150 sections 4-230 to 4-236, inclusive, as amended by this act, shall  
151 designate an independent auditor to conduct such audit. Not later than  
152 thirty days before the end of the fiscal period for which the audit is  
153 required, the nonstate entity shall file the name of such auditor with  
154 the cognizant agency. If a nonstate entity fails to make such filing, the  
155 cognizant agency may designate an independent auditor to conduct  
156 the audit. A nonstate entity shall be responsible for paying the costs of  
157 any audit conducted by an independent auditor designated by a  
158 cognizant agency.

159 (b) (1) Upon the completion of the audit, pursuant to sections 4-230  
160 to 4-236, inclusive, as amended by this act, the nonstate entity shall file  
161 [copies] a copy of the audit report with [state grantor agencies,] the  
162 cognizant agency and if applicable, state grantor agencies and pass-  
163 through entities. Once filed, such report shall be made available by the  
164 nonstate entity for public inspection. Copies of the report shall be filed  
165 not later than thirty days after completion of such report, if possible,  
166 but not later than six months after the end of the audit period. The  
167 cognizant agency may grant an extension of not more than thirty days,  
168 if the auditor [making] conducting the audit and the chief executive

169 officer of the nonstate entity jointly submit a request in writing to the  
170 cognizant agency [stating] that includes the reasons for such extension  
171 and an estimate of the time needed for completion of such audit, at  
172 least thirty days prior to the end of such six-month period. If the  
173 reason for the extension relates to deficiencies in the accounting system  
174 of the nonstate entity, the request shall be accompanied by a corrective  
175 action plan. The auditor or chief executive officer shall promptly  
176 provide any additional information the cognizant agency may require.  
177 Before determining whether to grant an extension request, the  
178 cognizant agency may [, after a hearing with] require the auditor and  
179 officials of the nonstate entity [, grant an additional extension if  
180 conditions warrant] to meet with representatives of the cognizant  
181 agency.

182 (2) Any nonstate entity, or auditor of such nonstate entity, which  
183 fails to have the audit report filed on its behalf within six months after  
184 the end of the fiscal year or within the time granted by the cognizant  
185 agency may be assessed, by the Secretary of the Office of Policy and  
186 Management, a civil penalty of not less than one thousand dollars but  
187 not more than ten thousand dollars. In addition to, or in lieu of such  
188 penalty, the cognizant agency may assign an auditor to perform the  
189 audit of such nonstate entity. In such case, the nonstate entity shall be  
190 responsible for the costs related to the audit. The secretary may, upon  
191 receipt of a written request from an official of the nonstate entity or its  
192 auditor, waive all such penalties if the secretary determines that there  
193 appears to be reasonable cause for the entity not having completed or  
194 provided the required audit report.

195 Sec. 4. Section 4-233 of the general statutes is repealed and the  
196 following is substituted in lieu thereof (*Effective from passage*):

197 (a) Each audit required by sections 4-230 to 4-236, inclusive, as  
198 amended by this act, shall:

199 (1) Be conducted in accordance with generally accepted government  
200 auditing standards, except that, for the purposes of said sections such

201 standards shall not be construed to require economy and efficiency  
202 audits, program results audits, or program evaluations; and

203 (2) Except in the case of program-specific audits, cover the entire  
204 operations, including financial operations, of the nonstate entity,  
205 except that such audit may exclude public hospitals.

206 (b) Each such audit shall determine and report whether: (1) The  
207 financial statements of the nonstate entity are presented fairly in all  
208 material respects in conformity with generally accepted accounting  
209 principles; (2) the schedule of expenditures of state financial assistance  
210 of the nonstate entity is presented fairly in all material respects in  
211 relation to the financial statements taken as a whole; (3) in addition to  
212 the requirements of generally accepted government auditing  
213 standards, the auditor has performed procedures to obtain an  
214 understanding of internal control over state programs sufficient to (A)  
215 plan the audit to support a low assessed level of control risk for major  
216 state programs, (B) plan the testing of internal control over major state  
217 programs to support a low assessed level of control risk for the  
218 assertions relevant to the compliance requirement for each major state  
219 program, and (C) perform testing of internal controls; and (4) the  
220 nonstate entity has complied with laws, regulations and grant or  
221 contract provisions that may have a material effect upon individual  
222 compliance requirements for each major state program. In complying  
223 with the requirements of subdivision (4) of this subsection, the  
224 independent auditor shall select and test a representative number of  
225 transactions from each major state program to provide the auditor  
226 sufficient evidence to support an opinion of compliance. Each audit  
227 report shall identify which programs were tested for compliance.

228 (c) [(1)] When the total expenditures of a nonstate entity's major  
229 state programs are less than fifty per cent of such nonstate entity's total  
230 expenditures of state financial assistance, excluding exempt program  
231 expenditures, the independent auditor shall select and test additional  
232 programs as major state programs as may be necessary to achieve

233 audit coverage of at least fifty per cent of the nonstate entity's total  
234 expenditures of state financial assistance, excluding exempt program  
235 expenditures. [The provisions of this subsection shall be carried out in  
236 accordance with the regulations adopted pursuant to section 4-236 and  
237 shall be subject to the provisions of subdivision (2) of this subsection.

238 (2) In achieving the audit coverage in accordance with subdivision  
239 (1) of this subsection, no more than two programs which each have  
240 total state financial assistance expenditures of twenty-five thousand  
241 dollars or more but not more than one hundred thousand dollars shall  
242 be tested, if such programs are required to be tested to achieve the  
243 audit coverage of subdivision (1) of this subsection.]

244 (d) If an audit conducted pursuant to this section finds any material  
245 or reportable noncompliance by a nonstate entity with applicable laws,  
246 regulations and grant or contract provisions, or finds any [reportable  
247 condition] significant deficiency or material weakness with respect to  
248 the internal controls of the nonstate entity concerning the matters  
249 described in subsection (b) of this section, the nonstate entity shall  
250 submit to appropriate state officials a plan for corrective action to  
251 eliminate such material or reportable noncompliance, [reportable  
252 condition] significant deficiency or material weakness.

253 Sec. 5. Section 4-235 of the general statutes is repealed and the  
254 following is substituted in lieu thereof (*Effective from passage*):

255 (a) The secretary shall designate cognizant agencies for audits  
256 conducted pursuant to sections 4-230 to 4-236, inclusive, as amended  
257 by this act.

258 (b) A cognizant agency shall: (1) Ensure through coordination with  
259 state agencies, that audits are made in a timely manner and in  
260 accordance with the requirements of sections 4-230 to 4-236, inclusive,  
261 as amended by this act; (2) ensure that corrective action plans made  
262 pursuant to section 4-233, as amended by this act, are transmitted to  
263 the appropriate state officials; and (3) (A) coordinate, to the extent

264 practicable, audits done by or under contract with state agencies that  
265 are in addition to the audits conducted pursuant to sections 4-230 to 4-  
266 236, inclusive, as amended by this act; and (B) ensure that such  
267 additional audits build upon the audits conducted pursuant to said  
268 sections.

269 (c) (1) Each pass-through entity which is subject to the audit  
270 requirements of sections 4-230 to 4-236, inclusive, as amended by this  
271 act, shall:

272 (A) Advise subrecipients of requirements imposed on them by state  
273 laws, regulations, and the provisions of contracts or grant agreements,  
274 and any supplemental requirements imposed by the pass-through  
275 entity;

276 (B) If the subrecipient is subject to an audit in accordance with the  
277 requirements of said sections 4-230 to 4-236, inclusive, as amended by  
278 this act, review such audit and ensure that prompt and appropriate  
279 corrective action is taken with respect to material or reportable  
280 findings of noncompliance with individual compliance requirements  
281 or [reportable conditions] significant deficiencies or material  
282 weaknesses in internal controls pertaining to state financial assistance  
283 provided to the subrecipient by the pass-through entity; or

284 (C) If the subrecipient is not subject to an audit in accordance with  
285 the requirements of said sections 4-230 to 4-236, inclusive, as amended  
286 by this act, monitor the activities of subrecipients as necessary to  
287 ensure that state financial assistance is used for authorized purposes in  
288 compliance with laws, regulations, and the provisions of contracts or  
289 grant agreements.

290 (2) Each pass-through entity, as a condition of receiving state  
291 financial assistance, shall require each of its subrecipients to permit the  
292 independent auditor of the pass-through entity to have such access to  
293 the subrecipient's records and financial statements as may be necessary  
294 for the pass-through entity to comply with sections 4-230 to 4-236,

295 inclusive, as amended by this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	4-230
Sec. 2	<i>from passage</i>	4-231
Sec. 3	<i>from passage</i>	4-232
Sec. 4	<i>from passage</i>	4-233
Sec. 5	<i>from passage</i>	4-235

**Statement of Purpose:**

To (1) increase the amount of state financial assistance that must be expended in order to trigger a state single audit; (2) make the revenue criteria provisions of the State Single Audit Act consistent with those in section 7-391 of the general statutes regarding audited agencies; (3) add definitions and procedures that conform to and more closely mirror the federal government's single audit act provisions, so as to promote a better understanding of audit requirements; and (4) clarify that an entity being audited is responsible for paying the cost of an audit in a case where a cognizant agency designates an independent auditor.

*[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]*