

Planning and Development Committee JOINT FAVORABLE REPORT

Bill No.: HB-5275

AN ACT CONCERNING AUDITS OF CERTAIN NONSTATE ENTITIES

Title: RECEIVING STATE FINANCIAL ASSISTANCE.

Vote Date: 3/15/2024

Vote Action: Joint Favorable Substitute

PH Date: 2/28/2024

File No.:

***Disclaimer:** The following JOINT FAVORABLE Report is prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and does not represent the intent of the General Assembly or either chamber thereof for any purpose.*

SPONSORS OF BILL:

Planning and Development Committee

REASONS FOR BILL:

This bill proposes to raise the threshold for mandatory State Single Audits or program-specific audits from \$300,000 to \$500,000 in annual state financial assistance expenditures. It aims to provide relief for smaller non-profit organizations struggling with audit costs and staffing shortages within auditing firms. An analysis suggests a potential 13% reduction in audits annually, but overall audit coverage would decrease by less than 1% since only smaller entities spending between \$300,000 and \$500,000 would be affected.

SUBSTITUTE LANGUAGE:

Made a technical change in line 30

RESPONSE FROM ADMINISTRATION/AGENCY:

[**Kimberly Kennison, Executive Financial Officer, State of Connecticut Office of Policy and Management:**](#)

She clarifies the background for increasing the threshold from \$300,000 to \$500,000. The \$300,000 threshold for a State Single Audit has been in existence since 2009. They explained that in 2009 the threshold requiring a federal single audit was \$500,000. Since then, the federal single audit threshold has increased to \$750,000 and there is a current proposal to raise the threshold to \$1,000,000. They state that auditing firms, primarily on behalf of their smaller non-profit clients, have in recent years, approached OPM regarding an increase to the threshold to provide auditing relief for these smaller non-profit organizations that often receive one-time grants bringing them over the threshold.

They state that the changes in this bill will provide audit relief to primarily smaller nonprofit organizations while continuing to ensure that state funds are being spent appropriately by maintaining audit 2 coverage of over 99% of state dollars previously subject to the State Single Audit under the \$300,000 lower threshold. Additionally, they point out that there is a minor drafting error that they ask the committee to correct as the proposal moves forward. On line 30, "such state entity" should read "such nonstate entity". (This was changed in the substitute language)

NATURE AND SOURCES OF SUPPORT:

[Bonnie Stewart, Executive Director & CEO, Connecticut Society of Certified Professional Accountants:](#)

[Sara Mendillo, Government Affairs, Middlesex County Chamber of Commerce:](#)

Both state that the increase from \$300,000 to \$500,000 is helpful, but strongly recommend aligning it with the federal threshold of \$750,000. They express that increasing the audit threshold to mirror the federal threshold will alleviate some administrative and financial burdens on small organizations. They also ask that a subsection is added to align the Connecticut Cost Standards with the Federal Cost Standards. They express that having two sets of standards wastes time and money. They conclude by urging the passage of this bill with the modifications stated above.

[Mark Kovitch, Chief Financial Officer, New Opportunities:](#)

[William Rybczyk, President & CEO, New Opportunities:](#)

They suggested that an additional item that would support this bill is a further update of CT Cost Standards to align with Federal Cost Standards. They stated that there has not been an adjustment to support this alignment in the last 8 years and this causes numerous administrative burdens for non-profit entities. Federal Cost Standards are updated and vetted on a regular basis to align with the needs of governmental entities and non-profit agencies. He used Section 8. Subsection (3) (e) as an example of the burden of the CT Cost Standards. They point to the removal of the sentence "the reports must document the work of all employees whose compensation is charged in whole or in part to State awards" stating that this subtle difference is a large burden. They explain that this requirement was removed from the federal standards many years ago. They conclude by saying he supports the measures outlined in this bill.

[Paul Ballasy, Partner, CohnReznick:](#)

He stated that he agrees with points in his colleague's, Mark Kovitch's testimony. He states that the cost of an audit as well as the added compliance requirements are burdensome on small organizations.

The following individuals have submitted written testimony in support of this bill

[Joseph Wollack, WollackLewitz](#)

[Sandra Callanan, CPA](#)

[1 person submitted anonymous testimony supporting the bill.](#)

NATURE AND SOURCES OF OPPOSITION:

None expressed.

Reported by: Ashley Orser

Date: 3/25/24