



Testimony Presented by

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To the

PA House Commerce Committee

November 17, 2015

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Good morning Chairman Harris, Chairman Thomas, and members of the House Commerce Committee. Thank you for the opportunity to testify on behalf of the Pennsylvania Institute of Certified Public Accountants (PICPA) regarding House Bill 1240, legislation sponsored by Rep. Marguerite Quinn, and issues related to the Solicitation of Funds for Charitable Purposes Act (Act 202 of 1990).

My name is Lisa Myers, and I am a CPA and principal with the firm of Boyer & Ritter (B&R) here in Harrisburg. I am also incoming president of the PICPA. I have more than 26 years of experience providing auditing, accounting, and consulting services to associations, civic and community societies, charitable organizations, educational institutions, community foundations, social clubs, and governmental entities. As a member of B&R's Government Services Group, I have extensive experience serving clients who are subject to the Single Audit Act requirements. I am also a member of the firm's Forensic, Valuation, and Litigation Support Services Group, and have extensive experience serving those in need of fraud and forensic accounting services.

Founded in 1897, the PICPA serves nearly 22,000 members as the voice of the accounting profession across the Commonwealth of Pennsylvania. Membership is composed of CPAs in public accounting—large firms, regional firms, and sole proprietors—as well as those CPAs working in business and industry, government, and education. PICPA's mission is to further the well-being of its members while upholding the public interest by articulating positions on professional and public issues where the expertise of CPAs is relevant.

Rep. Quinn's stated goal with House Bill 1240 is to ensure that those soliciting funds on behalf of a charitable cause are doing so in the best interest of Pennsylvanians. The bill would enhance the expectations for third-party solicitors by including a licensure requirement, add new disclosure methods, background disclosures, and prohibit solicitation of funds if someone has been convicted of certain crimes. Rep. Quinn's proposal would add the necessary qualifying requirements, penalties, and increase the fees. The legislation will also modernize registration fees and fines, and establish a dedicated funding stream for the Department of State's Bureau of Charitable Organizations (BCO). Finally, the legislation would place certain disclosure requirements on any solicitation related to a specific disaster or crisis with at least \$50,000 in contributions. The PICPA applauds Rep. Quinn for this initiative and the thoughtfulness in which she has approached this issue.

PICPA members occupy a unique position in the not-for-profit paradigm. We serve as board members, CFOs, and CEOs of Pennsylvania's largest and smallest charitable organizations. We also serve as independent, outside auditors of these entities. It is from this position that we offer the following suggestion to amend the law, which is not currently provided for in Rep. Quinn's bill.

First, though, allow me the opportunity to explain the difference between an audit, a review, and a compilation, as they are important elements of our suggestion.

The purpose of an audit engagement is to provide management and financial statement users with the auditor's opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the organization's financial reporting framework. To express an opinion, the auditor obtains reasonable assurance through evidence-gathering activities about whether the financial statements as a whole are free from material misstatement.

An audit opinion represents the highest level of assurance that financial statements fairly represent the entity's financial position and results of operations in accordance with the organization's financial reporting framework. However, the auditor can only obtain reasonable—not absolute—assurance that a client's financial statements are fairly presented in all material respects because of the following limitations:

- Audit procedures involve selective testing.
- Evidence gathered during an audit is often suggestive rather than conclusive.
- Fraud typically involves efforts by the perpetrator to conceal it through collusion, falsification of records, and misinformation.

In addition to an unqualified audit opinion, a CPA can provide the following:

- Qualified opinions: These state that, except for the effects of the matters to which the qualification relates, the financial statements are presented fairly in all material respects in accordance with GAAP (generally accepted accounting principles).
- Adverse opinions: These state that financial statements are not presented fairly in accordance with GAAP.
- Disclaimers of opinions: These do not express an opinion on the financial statements to which they relate.
- Reports with additional explanatory language: These are unqualified opinions that highlight a matter related to the financial statements.

A review of financial statements is when a CPA will obtain limited assurance as to whether any material modifications should be made to the financial statements to be in accordance with the applicable financial reporting framework. This will be done primarily through inquiry and analytical procedures.

A review engagement requires the accumulation of review evidence that provides the CPA with a reasonable basis for obtaining limited assurance that no material modifications need to be made to the financial statements.

With a review engagement (as opposed to a compilation, which will be reviewed in a moment) inquiry and analytical procedures must be performed and properly documented before the CPA can express limited assurance on the financial statements. In addition, a CPA must be independent of the client for review engagements.

Analytical procedures—which often include trend analysis, ratio analysis, and reasonableness tests—identify relationships and individual items that may align with the organization's normal business practices. Results are evaluated by comparison to an organization's past performance, expected performance, and available industry data. If a CPA believes that fluctuations from expected amounts are significant, additional procedures must be performed and documented before limited assurance can be provided that no material modifications are necessary.

A review engagement requires a CPA to develop and perform analytical and inquiry procedures tailored to a client's specific industry, including the accounting principles and practices unique to that industry, and an awareness of the risk of material misstatement of the financial statements.

In a compilation engagement the CPA will apply accounting and financial reporting expertise to assist management in the presentation of financial statements and reports without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework.

A compilation is useful when limited, in-house capabilities for preparing financial statements exist. The most significant advantage of a compiled financial statement is that it allows a CPA to assist with financial statements at reduced cost to a client by limiting the CPA's efforts to the mechanics of putting information in the form of financial statements. The CPA does not have to be independent from the client to issue compiled financial statements; however, if the CPA is not independent that fact has to be disclosed in the CPA's compilation report.

A CPA's understanding of the accounting principles and practices used in the client's industry should be sufficient to enable compilation of the financial statements in the appropriate form.

Generally, charitable organizations are required to maintain and administer all contributions raised on its behalf, and must also file financial reports for the immediately preceding fiscal year. Additionally, charitable organizations in Pennsylvania must have an audit completed annually if the entity receives annual contributions of \$300,000 or more. Every charitable organization that receives annual contributions of at least \$100,000, but less than \$300,000, is required to have either an audit or review of their financial statements. Every charitable organization that receives annual contributions of at least \$50,000, but less than \$100,000, is required to have a compilation, review, or audit of their financial statements. Charitable organizations with annual contributions of less than \$50,000 have the option of a compilation, review, or audit of their financial statements.

These thresholds are too low in today's economy. For example, the federal government each year provides over \$400 billion in grants to state, local, and tribal governments, colleges and universities, and other nonprofit organizations (nonfederal entities). The Single Audit Act of 1984 (with an amendment in 1996) and OMB Circular A-133 ("Audits of State, Local Governments, and Non-Profit Organizations") provide audit requirements for ensuring that these funds are expended properly.

Effective as of Dec. 31, 2015, all nonfederal entities that expend \$750,000 or more of federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act amendments of 1996, OMB Circular A-133, the OMB Circular Compliance Supplement, and Government Auditing Standards. In addition, the federal government has lowered the percentage of coverage required by low-risk and non-low-risk auditees. Under new regulations, auditors must audit 20 percent of the federal awards expended over \$750,000 (or \$150,000) for low-risk auditees; and 40 percent of the federal awards expended over \$750,000 (or \$300,000) for a non-low-risk auditee (e.g. high-risk auditee). A single audit is intended to provide a cost-effective audit for nonfederal entities in that one audit is conducted in lieu of multiple audits of individual programs.

The PICPA supports increasing the audit threshold to mirror the requirement under the federal Single Audit Act.

Thank you again, and I would be happy to answer your questions.